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28 August 1985

China Report

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CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICY AND ISSUES

Discussion of China's Economic Development Strategy (Wu Jian, Weng Zhixing; SHIJIE JINGJI, No 6, 10 Jun 85)...	1
PRC Journal on Developing Specialized Production (Sun Xialiang; JINGJI YANJIU, No 6, 20 Jun 85).....	13
New Strategy of Economic Construction Discussed (Zhou Yongjin; JINGJI KEXUE [ECONOMIC SCIENCE], No 2, 20 Apr 85).....	20
Sichuan Official Calls for Curbing Fake Goods (Sichuan Provincial Service, 21 Jul 85).....	29
Henan Holds Teleconference on Counterfeit Commodities (Henan Provincial Service, 29 Jul 85).....	30
Briefs Beijing Illegal Speculation Cases	32

PROVINCIAL AFFAIRS

Shanxi's Strategy for Economic Development (Wang Maolin; JINGJI WENTI [PROBLEMS IN ECONOMICS], No 3, Mar 85).....	33
Village Enterprises Meeting Held in Fujian (Liu Xianpeng; XINHUA, 23 Jul 85).....	43

Huang Jingbo on Improving Poor Districts, Wages (Qinghai Provincial Service, 27 Jul 85).....	45
Xizang Chairman on Economic Successes (XINHUA, 27 Jul 85).....	46
Briefs	
Qinghai Rural Reforms	47
Nei Monggol Township Enterprises	47
Jilin Individual-Run Business	47
ECONOMIC MANAGEMENT	
Importance of Management in Business Competition Discussed (Lan Dunhua; QIYE GUANLI [ENTERPRISE MANAGEMENT], No 4, 5 Apr 85).....	48
Xian Holds Meeting on Economic Crimes (Shaanxi Provincial Service, 21 Jul 85).....	53
Official Reveals Products Quality Drive (XINHUA, 23 Jul 85).....	54
Briefs	
Sichuan Measurements, Standards Work	55
Qinghai Talented People	55
FINANCE AND BANKING	
Hebei Report on Final Accounts and Budget (Zhou Guoqing; HEBEI RIBAO, 1 Jul 85).....	56
Guangxi Uses Credit Funds To Support Rural Enterprises (Guangxi Regional Service, 22 Jul 85).....	62
Briefs	
Jilin Treasury Bonds	64
Hebei Currency Withdrawal	64
Jilin Tax Revenues	64
Nei Monggol Financial Revenues	64
INDUSTRY	
Shanghai's First-Half Industrial Output Up 12.8 Percent Over 1984 (CHINA DAILY, 25 Jul 85).....	65
Briefs	
Liaoning Industrial Production	67
Jilin Feed Industry	67
Jilin Township Industry	67

Jilin Industrial Production	67
Gansu Industrial Production	67
Anhui Supplies Shanghai Cement	68
Beijing, Wuxi Garment Centers	68

CONSTRUCTION

Briefs	
Shanghai Cold Storage	69

FOREIGN TRADE AND INVESTMENT

Jakarta Reports Signing of Memorandum With PRC (TEMPO, 13 Jul 85; AFP, 31 Jul 85).....	70
Wang Yaoting Interviewed on Trade Prospects	70
PRC Pledges To Buy \$200 Million Worth of Indonesian Goods	72

LABOR AND WAGES

Jilin Commentary Urges Rational Flow of Personnel (Jilin Provincial Service, 22 Jul 85).....	74
---	----

TRANSPORTATION

Communications Minister Addresses National Conference (Qian Yongchang; GONGLU [HIGHWAYS], No 5, 25 May 85).....	76
Shanghai Announces Measures To Clear Harbor (CHINA DAILY, 20 Jul 85).....	82
Hebei Port Handles More Cargo in First 6 Months (XINHUA, 27 Jul 85).....	83
CAAC To Import New Navigation Equipment (XINHUA, 22 Jul 85).....	84

Briefs	
Shanghai Mining Trucks	85

HONG KONG ECONOMIC TRENDS

Hong Kong Financial System Reorganization Discussed (JINGJI DAOBAO [ECONOMIC REPORTER], No 27, 8 Jul 85).....	86
Hong Kong Banking Unrest Discussed (Kang Ling; JINGJI DAOBAO [ECONOMIC REPORTER], No 27, 8 Jul 85).....	89

NATIONAL POLICY AND ISSUES

DISCUSSION OF CHINA'S ECONOMIC DEVELOPMENT STRATEGY

HK290909 Beijing SHIJIE JINGJI in Chinese No 6, 10 Jun 85 pp 45-52

[Article by Wu Jian [0702 0256] and Weng Zhixing [5040 1807 5281] of the Party School of the CPC Central Committee: "Understanding of a Few Points on the Strategy of China's Economic Development and Tendency of World Economic Development--A Discussion With Comrades Zhu Jiaming and Huang Jiangnan"--passages within slantlines published in boldface]

[Text] In early March 1984, the editorial department of SHIJIE JINGJI sponsored a symposium "The Trend of World Economic Development" in Beijing. Comrades Zhu Jiaming and Huang Jiangnan presented their research paper entitled "On Contemporary Worldwide Scientific and Technological Revolution and China's Global Strategy" at the symposium. Later, SHIJIE JINGJI DAOBAO carried excerpts of the research paper and SHIJIE JINGJI published the revised version entitled "On Worldwide Scientific and Technological Revolution" in Issue No 4 1984. The research paper (hereinafter abbreviated as "New Strategy") probed the issues concerning the situation of the contemporary worldwide scientific and technological revolution, the major changes that may arise in the world economy, the challenges confronting China under such a situation, and the new strategy China must adopt, and expressed a series of valuable views. In our opinion, the views of the "New Strategy" on the strategic guiding ideology for China's economic development and the trend of world economic development are inappropriate in some cases. We would like to present our views to discuss this with comrades Zhu Jiaming and Huang Jiangnan.

/1. As the guiding ideology for a development strategy, the tentative idea of Comrades Zhu and Huang on the new development strategy is not acceptable/

What is the basic idea of the new development strategy put forward by Comrades Zhu and Huang? The authors explained this in their article published in SHIJIE JINGJI No 4 and pointed out that its "core is the transformation of resources." (Footnote 1) (SHIJIE JINGJI No 4; 1984 p 7) For the meaning of transformation of resources, we can find such a clue in the article: "Import (natural, scientific and technological, and capital) resources to transform traditional industries and support new and developing industries--enter into international competition and strengthen the import of resources--gradually establish developed new industries--export resources." This procedure can also be simplified as "import resources--develop industry--export resources."

According to this tentative idea, the development strategy put forward by Comrades Zhu and Huang means that China's national economy should be developed by "importing foreign scientific and technological resources in an all-round manner to carry out large-scale technological trade," which is a resource import-type development strategy. Does such a development strategy conform to China's national conditions? Should it be the guiding ideology that accords with the strategy of China's economic development?

The economic development strategy of a country should proceed from its own national conditions and be integrated with its concrete realities. In his opening address to the 12th CPC National Congress, Comrade Deng Xiaoping explicitly pointed out: "In carrying out our modernization program, we must proceed from the realities in China.... To integrate the universal truth of Marxism with the concrete realities of China, blaze a path of our own, and build socialism with Chinese characteristics--this is the basic conclusion we have reached in summing up long, historical experience." (Footnote 2) ("Selected Works of Deng Xiaoping," pp 371-372) In order to study the strategy of China's economic development in accordance with this ideological line, it is necessary to first understand China's national conditions. Laying emphasis on national conditions does not, in the slightest degree, mean excluding international circumstances. We must fully analyze the world's economic and political situation and clearly understand the influence of such an international environment on China's economic and social development. Only on the basis of such a comprehensive and systematic analysis can we adopt the economic development strategy that conforms to domestic and international conditions. This is precisely the method adopted by the CPC Central Committee. On the basis of comprehensively analyzing China's natural conditions, economic level, economic and social structure, and international conditions, the CPC Central Committee has pointed out that to carry out China's socialist modernization program, it is necessary to make the best use of two resources (domestic and foreign resources), open up two markets (domestic and foreign markets), and master the skills (organize domestic construction and develop foreign economic relations). In developing foreign economic relations, the stress has been put on widening the field of vision from China to the world on the premise of independence and self-reliance and making use of the strong points of other countries to offset our weaknesses.

[HK290911] According to Comrades Zhu and Huang, under the situation of the new worldwide scientific and technological revolution, it is necessary to "import foreign scientific and technological resources in an all-round manner to carry out large-scale technological trade." It goes without saying that to vitalize the economy and enable China's science and technology to attain advanced world levels as quickly as possible, we must make great efforts to assimilate the scientific and technological achievements of all countries. However, there are two problems that merit attention. First, can the strategy for a country's economic development, particularly the scientific and technological progress of a big socialist country like China, totally or mainly rely on the "import of foreign scientific and technological resources?" No. If we merely emphasize the import of foreign scientific and technological resources, irrespective of developing science and technology through self-reliance, it

would be far from comprehensive even though it is considered as a policy for science and technology. Second, in the current international economic system where monopoly capitalism still exists, is it possible to "import foreign scientific and technological resources in an all-round manner?" No, certainly not. None of the capitalist countries are willing to transfer their advanced science and technology to other countries. The advanced technology imported by China is mainly the technology already popularized or to be upgraded by that country. It must be emphatically pointed out that making full use of the opportune moment of the new scientific and technological revolution means vigorously developing China's science and technology and enhancing the capability of developing the national economy and science and technology through self-reliance on the basis of China's existing scientific and technological capacity and fully utilizing foreign scientific and technological achievements, rather than importing foreign scientific and technological resources on a large scale. Over the past 35 years since the founding of the PRC, China has laid a solid foundation for the development of its national economy and science and technology. Now it has a large contingent of scientific and technical personnel. Therefore, we have the ability and conditions to attain the grand objective of socialist modernization by mainly relying on our own forces and utilizing all foreign positive factors.

The domestic resources and market capacity of a country are closely related to the direction and scale of its industrial development. China is a large country with abundant resources and a huge market. As a result, China should rely mainly on its domestic market and not depend on the international market like those countries which lack resources and have a limited market. Laying stress on the domestic market does not mean that we ignore the international market. We must clearly understand the dialectical relations between the two, in which one plays the leading role, while the other plays the supplementary role. The authors of "New Strategy" did not analyze the domestic and international market or combine the two, but proposed discarding an ignorant view: "China should base itself on exploiting the domestic market forever." In fact, there is nothing wrong in China basing itself on its domestic market to develop the national economy. It would be wrong if the meaning of "forever" is against exploiting the international market. Does the authors' criticism of such view mean that China should forever or mainly base itself on exploiting the international market? If this is the case, what will the picture of China's national economic development be like? Consequently, it will be difficult to satisfy the needs of the economic construction and people's life in China. Moreover, China will have to rely excessively on the international market for its economic development. At present the international market is still dominated and controlled by the economically developed imperialist countries. Under such circumstances, China's national economy is bound to be affected by the change of economic policies and fluctuations in market prices following the economic crisis and recession in the imperialist countries. Obviously, this is unfavorable to the building of China's socialist modernization carried out in a planned manner.

In short, we hold that the views of Comrades Zhu and Huang that advocate the new development strategy centered on transformation of resources, merely stress international resources and market, and call for all-round import of

foreign scientific and technological resources are one-sided. The root of such one-sidedness lies in their negligence of the basic principle of self-reliance. Therefore, we can draw the following conclusion: With regard to the development strategy as a whole, the new development strategy proposed by Comrades Zhu and Huang cannot be recommended.

[HK290913] /2. While analyzing the role of the new scientific and technological revolution, we must pay attention to social productive forces as well as to the economic basis that conditions the development of capitalist production/

The authors of "New Strategy" advanced their tentative idea on the new development strategy on the basis of analyzing the situation of world economic development, particularly the situation of the current new scientific and technological revolution. The authors held that "the strategic scientific and technological revolution will continue. A global industrial revolution will possibly take place by the end of the century, which will bring about a new world economic structure that is beyond national boundaries." "The trend of world economic integration will continue to be strengthened" and "there is little possibility of the outburst of a global nuclear war.... Coordination between cosmopolitanism and nationalism is being enhanced." (Footnote) (SHIJIE JINGJI DAOBAO, 19 August 1984) While publishing the article in SHIJIE JINGJI, although the authors made some amendments in wording, the basic idea on the trend of world economic development was identical. Their formula was "scientific and technological revolution--the trend of economic integration--the strengthening of coordination." In other words, the cause of the economic development of modern capitalism is scientific and technological revolution and its consequences are integration and the strengthening of coordination.

We must first make a study of the role of the new scientific and technological revolution in the trend of capitalist economic development. According to Marxists, science and technology are productive forces. It is beyond question that the new scientific and technological revolution will play an immense revolutionary role in the development of the world's economy. However, the role differs according to the economy established on a different economic basis. The new scientific and technological revolution will tremendously accelerate the development of the socialist economy. Fundamentally speaking, there does not exist any obstacle to the development and application of new science and technology under the socialist system. On the contrary, the role of the scientific and technological revolution has a dual nature in the capitalist economy. It promotes economic development as well as intensifies social contradictions.

Under the conditions of modern monopoly capitalism, new science and technology are the means for the monopoly capital of various countries to acquire a favorable position in the sharp competition carried out at home and abroad, to seek huge profits, and to control the underdeveloped countries. Therefore, the developed capitalist countries vie with each other to develop new science and technology, thus pushing forward their social productive forces and bringing about tremendous changes in their economic and social life. Nevertheless, there is another aspect in real life. The new scientific and technological

revolution cannot eradicate the contradictions inherent in the capitalist system. On the contrary, it further intensifies the various contradictions in the capitalist world. International capitalists cherish the illusion that the new scientific and technological progress will extricate the Western countries from their predicament, thus stimulating their economic prosperity once again and bringing about a "brilliant epoch." In fact, this is impossible. As Marx said: "Capitalist production always tries to overcome these restrictions inherent in itself. However, the means used to overcome the restrictions impose the restrictions on itself again on a larger scale." (Footnote 4) ("Collected Works of Marx and Engels," Vol 25, p 278)

Besides exerting a tremendous influence on the economic development of modern capitalism, the new scientific and technological revolution will further involve and affect international economic relations. Viewed from the angle of productive forces, the new scientific and technological revolution will give impetus to the development of the social productive forces and mass production and further strengthen the social and international division of labor. Therefore, in the world's future economic development, the economies of various countries will be closely related to each other and will further depend on the world market. Viewed from this standpoint, it is absolutely correct to emphasize the development of international economic exchanges and China's foreign economic relations. We are in favor of these views expounded in the "New Strategy." However, if we take into account the social factor of the production relations of modern monopoly capitalism, the question would be far more complicated. The world economy and international economic relations in real life cannot be separated from their economic basis. In other words, they are determined by the social economic basis.

[HK290915] How should we view the international division of labor under the situation of the new scientific and technological revolution? The authors of "New Strategy" criticized the view that "the theory of international division of labor is the theory of colonialism" (Footnote 5) (SHIJIE JINGJI No 4, 1984 p 8) in their article. We are against such a sweeping statement. However, can we conversely say that the theory of international division of labor is not the theory of colonialism? It is also inappropriate to look at the matter in this way. The key to the question is to make concrete analysis. The "theory of international division of labor" viewed from the new scientific and technological revolution, mass production, and internationalized production should not be regarded as the theory of colonialism. While discussing the nature of international division of labor from the angle of production relations, it is necessary to make further analysis. The international division of labor and its theory established on the basis of the relations of socialist production and characterized by mutual cooperative relations between socialist countries are certainly not colonialism. However, the international division of labor of the economic system of the capitalist world established on the economic basis of modern capitalism is entirely different. The contemporary or modern theory of international division of labor of every description, such as "Japan will be responsible for industry, while countries in East Asia will be responsible for agriculture" is an out and out theory of imperialism and colonialism of the past century. Is this not true? Compared with the period before World War II, there have been some changes in the international

division of labor between the imperialist and nationalist countries in the capitalist world. However, there has been no change in the exploitation and irrationality caused by long-term imperialist and colonialist domination. With regard to the trend of development, so long as monopoly capital occupies a dominant position in the capitalist world, it will be impossible to abolish the exploitative and irrational international division of labor.

While analyzing the impact of scientific and technological revolution on the trend of capitalist economic development, we must proceed from the close ties between social productive forces and production relations and the movement of opposites. Only in this way can we draw a correct conclusion.

/3. There exist the trend of unity and struggle as well as the trend of cooperation and conflict in the development of modern international monopoly alliance, in which unity and cooperation are relative, while struggle and conflict are absolute./

It is inappropriate to discuss the international division of labor in very general terms, to say nothing of discussing the "world's economic integration." In the world today, there exist countries with different social systems, such as socialist countries, capitalist countries and various kinds of developing countries. The social and economic systems of a socialist country are entirely different from those of a capitalist country. Although this does not hinder them from carrying out mutual economic and technical exchanges, can "economic integration" be attained between the socialist and capitalist economies? Even in the capitalist world, it is also impossible to realize the "world's economic integration." This is because there exist two different types of countries in the economic system of the capitalist world, namely, modern monopoly capitalist countries and developing national capitalist countries. Their social economic bases and economic development level differ from each other. In the course of the new scientific and technological revolution, a small number of the developing industrial countries can expect to make considerable headway. Owing to their poor economic foundation and lack of funds and technical forces, it will be extremely difficult for the large numbers of developing countries to make headway in their economy, science, and technology. Generally speaking, this will further widen the economic and technological gap between the developed and the developing countries. Consequently, the developing countries will be in an unfavorable position in international economic exchanges. Instead of coordination and integration, their contradictions and conflicts will be further intensified. With regard to the relations between the developed capitalist countries, on one hand, the new scientific and technological revolution can strengthen the international economic connections between them and further develop the international monopoly association; on the other hand, it can also aggravate the imbalance of economic development of the capitalist countries, thus further intensifying their competition in the international market and sharpening the economic contradictions and struggles among the capitalist countries.

[HK290917] The establishment of worldwide economic integration is utterly impossible. The capitalist economic integration referred to in the academic circles is but a regional phenomenon. The capitalist economic integration

of developed capitalism is in essence the development of the modern international monopoly alliance. Therefore, we must proceed from the nature and contradiction of modern imperialism while probing the trend of capitalist economic integration, and analyze the developing trend of the modern international monopoly alliance.

Lenin's basic principle on the mutual relations between monopoly and competition, namely, competition gives rise to monopoly and monopoly intensifies competition, scientifically revealed the objective law of the nature and development of the international monopoly alliance, which is of great significance to guiding our study of the developing trend of the modern international monopoly alliance. The external expansion and development of capital will further sharpen the worldwide competition of the monopoly capital of various countries. It is precisely the external pressure of such competition and the internal motivity of seeking huge monopoly profits that have encouraged such an alliance among them. The purpose of the monopoly alliance formed jointly by some countries is to prevent each from weakening the other by coordinating their conflict of interests so as to deal with stronger competitors. In the contemporary world, there have emerged superpowers which have particularly great political and economic strength. In order to economically contend with these superpowers, it is necessary for some countries to jointly form a regional international monopoly alliance. Since World War II, most of the colonial countries have won independence and the developing countries have struggled for their national economic independence and enhanced their economic strength. Under such circumstances, the imperialist powers have adopted economic infiltration means against these countries so as to insure their monopolistic profits. Thus, the international monopoly alliance becomes an important instrument of the imperialist powers in striving for spheres of influence in the economy. Over the last 40 years, the various modern international monopoly alliances, with the EEC as a typical example, have come into being and developed under the above-mentioned international situation and conditions. However, the private ownership of monopoly capitalism determines the production aim of the monopoly capital of various countries, that is, to seek huge monopolistic profits and determines the inevitable sharp struggles carried out among the modern international monopoly alliances (including struggles within an alliance) for favorable investment localities and markets and various economic benefits. The conflicts within the EEC and the 3-sided struggle among the United States, Europe and Japan can evidently prove the following law of development of monopoly capitalism: The international monopoly alliance established on the basis of the private ownership of monopoly capitalism cannot eradicate the struggles within international monopoly capital. With the development of state monopoly capitalism, these struggles will become more acute. We should say that there exists the trend of unity and struggle as well as cooperation and conflict instead of only unity and cooperation in the development of modern international monopoly alliance. The authors of "New Strategy" held that "the trend of the world's economic integration will be further strengthened." It is quite obvious that this is an estimate that stresses unity rather than struggle. When the article was published in SHIJIE JINGJI, the authors added "the development amidst numerous contradictions" before "the interdependent trend of the world economy" (namely, the trend of "integration"). However, the authors gave prominence to the trend of unity and

cooperation rather than two trends. This is not an accidental negligence, but an outcome of one-sided understanding.

Can the development of the two trends be even under all circumstances? No. The complicated nature of contradictions determines the unevenness of the developing trend of the modern international monopoly alliance. Due to the solid economic basis of monopoly capitalism, it must be pointed out that the trend of unity and cooperation is relative, while that of struggle and conflict is absolute. Viewed from a developing standpoint, unity will be characterized by development, standstill and split, while struggle, which may be weak or strong occasionally, will exist in the entire process of the development of the modern international monopoly alliance. Struggle will never cease even though the trend of unity is in a predominant position. With the various contradictions existing in the modern international monopoly alliance, the trend of struggle will play an increasing role of restraint over the trend of unity. In the development of the international monopoly alliance, the full picture of the two trends can be clearly manifested only after a fairly long period in the development of capitalism. Viewed from short-term forecast, the trend of unity of international monopoly will be strengthened by the end of the century. Meanwhile, the trend of struggle will also develop, but will not be so acute. As to the mid and long-term development of the two trends, it is necessary to make further observations and studies. In this respect, the world's capitalist economy and the development of its contradictions will play a decisive role. If a momentous economic crisis takes place in the capitalist world in the mid or long-term, which seriously attacks the capitalist economy, tremendous changes will take place in the economy and politics of the capitalist world. The trend of struggle and conflict will then inevitably occupy a dominant position and even lead to a split in unity.

[HK290919] To sum up, it would be inappropriate to merely stress the trend of unity and cooperation unconditionally without making an analysis of the development of the two trends.

/4. Can "the intersection of worldwide economic benefits" and internationalization of production and capital diminish the possibility of imperialist world wars?/

Another important estimate of the trend of world development made by the "New Strategy" was: "There is little possibility of the outburst of a global nuclear war." (Footnote 6) (SHIJIE JINGJI DAOBAO, 19 August 1984) When reprinted in SHIJIE JINGJI the version was changed into: "There exists the possibility of a world war, particularly a global nuclear war. However, this is unlikely to happen." (Footnote 7) (SHIJIE JINGJI, No 4, 1984 p 6) "The intersection of worldwide economic benefits is the source of turbulence as well as the root cause that prevents all-out conflict." (Footnote 8) (SHIJIE JINGJI DAOBAO, 19 August 1984) This estimate and analysis is the logical conclusion of the authors' analysis and forecast of the world economy and international economic relations, which include the world's economic integration and coordination. "World's economic integration--intersection of worldwide economic benefits--coordination between cosmopolitanism and nationalism--little possibility of the world war." Are these views not the authors' comprehensive and systematic estimate of the trend of world development? We are against such views.

We must never forget that the "world" today is in the transition period from capitalism to socialism. In order to make a correct estimate of the trend of the world's economic and political development, it is necessary to make concrete analysis of the current situation and development of this transition period. As is known to all, there exist countries with different social systems in the world today, such as modern monopoly capitalism, developing national capitalism, socialism, and so on. There also exist two superpowers which pursue hegemonism. Can "the intersection of worldwide economic benefits" exist between these countries? It is necessary to make a profound analysis even within the economic system of the capitalist world. The internationalized development of production and capital has strengthened the economic connections between the developed capitalist countries and has formed into the so-called economic structure in which each infiltrates the other. In form, their "cooperation" has developed, but in essence, the struggles between themselves are further intensified. This shows that the developed countries have strengthened mutual infiltration of their capital. The struggles between modern imperialist countries for commodity markets and favorable investment localities are no longer restricted to the "outer areas" of the capitalist world, namely, among the developing countries; but are mainly carried out in their "heartland." These struggles have a direct bearing on the gains or losses of the countries concerned. We must also be aware that the monopoly capitalists will never be content with the situation of each infiltrating the other. The principle of all capitalism is "what's mine is mine, and what's yours is mine, too." When the relations between the imperialist countries are "cooperative" at present, it is particularly necessary to pay attention to the development of their contradictions and conflicts.

According to the authors, the "intersection of worldwide economic benefits" is in fact the common interests of various countries. Its basis is "integration." Actually, it is impossible for the capitalist world to have common interests that can "prevent all-out conflicts," to say nothing of the two superpowers and the whole world. Although the capitalist countries established on the basis of private ownership of monopoly capitalism may have certain common interests within themselves, each country has its own monopoly capitalist interests. In order to reap more monopoly profits, the fierce rivalry between them for natural resources areas, market and investment areas is unavoidable. The contradictions between the developed capitalist countries show that it is impossible for them to have coordinated "common interests." With regard to the economic cooperation between the imperialist powers and developing countries, if the principle of equality and mutual benefit is respected, a certain form of common interests can be established. For example, if a joint venture is run well, it will benefit both sides. However, if we make an analysis of such cooperation on a second level, we will discover that both cooperative parties proceed from their respective interests. The purpose of the imperialist powers is to gain increasing monopoly profits, while the developing countries are aiming at developing their national economies. As the analysis does not end at this phase, it is necessary to make the analysis on a third level. Due to the nature of modern monopoly capitalism and its dominant position in the world's capitalist economic system, the principle of equality and mutual benefit is usually trampled, thus harming the common interests established under peculiar

conditions. So long as imperialists are imperialists and the purpose of monopoly capital to seek huge monopoly profits remains unchanged, there can be no common interests between the modern imperialist powers and the developing countries. Instead, the contradictions between the two will become increasingly acute.

[HK290921] As a long-standing concept, cosmopolitanism advocates the ideological system of world integration dominated by the universal mind. At the stage of imperialism, it is used to cover the hegemonist moves of the imperialists in controlling and plundering other countries and in monopolizing the world market. Therefore, it is an ideological instrument that serves the aggressive and expansionist policies of monopoly capital. Meanwhile, it is also an excuse used by the reactionary class of some countries to betray their national interests. What does "cosmopolitanism" as mentioned by Comrades Zhu and Huang mean? We hold that it is inappropriate for the authors to discuss cosmopolitanism and nationalism in abstract in the way they talked about the world's economic integration by deviating from the social economic basis. The economic and political connections between various countries were strengthened after the war. There emerged many economic, social, military and technical international organizations which signed a number of international or regional treaties and agreements. Can we regard this as coordination between cosmopolitanism and nationalism or as the trend of cosmopolitanism? No. In the world today, there are international organizations established between socialist countries, between development countries, between monopoly capitalist countries, and between countries of different social systems. The agreement and treaties concluded by these international organizations are varied and complicated. How can we attribute the complicated and numerous international organizations, agreements, and treaties to an abstract cosmopolitanism? As to nationalism, it is also necessary to make concrete analysis. Similarly, we cannot confuse nationalism with the national interests of different types of countries. Nationalism of the developing countries is the nationalism of the people of the Third World against imperialism, colonialism, and hegemonism; while nationalism of the developed countries is the self-seeking nationalism of the monopoly capitalist class of various countries which pursues the policy of capital expansionism. It is impossible to realize cosmopolitanism based on common interest between the two types of countries and two kinds of nationalism that confront each other.

In short, it is inappropriate to discuss cosmopolitanism and nationalism in abstract and to make the estimate that "coordination between cosmopolitanism and nationalism is being strengthened" under the conditions where modern monopoly capitalism and the rivalry between the two superpowers for global hegemony still exist.

As regards a world war, it is a very complicated question. Although there are fundamental, concrete, economic, political, and many other causes of war, there are more factors related to the outbreak of a war. However, no specific factor can offset the "root cause" of imperialist wars. We must never regard the intersection of worldwide economic benefits as the general factor that can prevent all-out conflict, thus making the estimate that there is little possibility of the outbreak of a world war. History has again and again

proved that imperialism, colonialism and hegemonism are the sources of world war. At present only the two superpowers can launch a world war. Viewed from the general trend, rivalry between the two superpowers for world hegemony is intensifying. The danger of a world war still exists and imperialist and hegemonist wars are launched one after another. Aimed at such an international situation and developing trend, Comrade Zhao Ziyang pointed out in his Government Work Report delivered at the Second Session of the Sixth NPC: "It is disturbing that the present international situation remains tense and turbulent. The two superpowers are locked in an ever-intensifying global rivalry and their nuclear arms race continues to escalate. Their military confrontation in Europe is sharpening and their military expansionist activities in the Asian-Pacific region continue unabated. The 'hot' spots in various parts of the world have not in the least cooled down. Rather, some of the conflicts are likely to expand. The danger of a world war still remains. Faced with these stark facts, the Chinese people cannot but be gravely concerned about the question of war and peace." (Footnote 9) (RENMIN RIBAO, 2 June 1984)

/5. The two ever-changing basic trends of world economy and international economic relations require us to firmly establish the strategic guiding ideology of "two kinds of resources," "two markets," and "two types of skills"/

The above analysis shows that the tentative idea on importing resources for China's economic development put forward by the authors of "New Strategy" neglected the basic factor of national conditions as well as lacking consideration of world conditions. It is the authors' estimate of a trend or a main trend that has determined their strategic ideology on one kind of resource or the main kinds of resources. We hold that the strategic guiding ideology put forward by the CPC Central Committee and accepted by many comrades in the economic and academic circles on two kinds of resources, two markets, and two types of skills is based on China's national conditions as well as on the scientific foresight of the development of world economy and international economic relations. The economic development strategy can be correct only when it is adopted in light of this guiding ideology.

[HK290923] The law of unity of opposites is the fundamental law for the development of all things. As matters in the world are extremely complicated, we must adhere to the world outlook and method of one dividing into two. Generally speaking, the production of human society includes productive forces as well as social production relations. In the world today, there exist capitalism, socialism, (and also other systems). In the capitalist world, there exists monopoly capitalism which occupies a dominant position and there is also national capitalism of the Third World which is being bullied everywhere. The capitalist economy in the world is developing between the two trends of growth and standstill. The Western monopoly capitalists are always talking about offering aid to the developing countries, but they are actually trying by every means to exploit them in economic contacts. The economic relations between the developed capitalist countries are partnerships in word, but open and covert struggles in deed. The two superpowers are flaunting the banner of safeguarding world peace, but they are actually

trying to enter into arms expansion and war preparations. The root cause of all this is the existence of capitalism in the world. It is not ordinary capitalism, but monopoly capitalism. Within a fairly long period that can be anticipated, monopoly capitalism will occupy a dominant position in the capitalist world and the world market. Therefore, it is necessary to make a multi-layered concrete analysis of the tremendous influence of the rising scientific and technological revolution on the world economy and international economic relations, so that our understanding of the trend of world development will approach reality.

The new scientific and technological revolution will exert a tremendous revolutionary influence over the development of social productive forces. All developing socialist countries should seize this opportunity and adopt various measures to catch up with the advanced world levels. The new scientific and technological revolution is also a stimulus to the development of capitalism, which can play the role of temporarily stabilizing the world's capitalist economic situation. The trend of unity in international economic relations will develop somewhat within a certain period. With a sense of urgency, we must make full use of the current "peaceful" period, in which a world war has not yet broken out, stir up our courage and exert our utmost effort to develop foreign economic relations, and do well all domestic and foreign work concerning this aspect. However, the influence of the new scientific and technological revolution on the world's capitalist economy has a dual nature. While developing the capitalist economy, it also intensifies the contradictions of the capitalist world. With regard to world capitalism, stability can be transformed into turbulence and unity into conflicts. In addition, there is the factor of turbulence in stability and the factor of conflicts in unity. While vigorously developing foreign economic relations, we must not only have courage, but should also use our wisdom to observe the ever-changing conditions in the world's economic development so that the favorable conditions can be utilized in the right way. As there are relevant problems in the periods of stability and turbulence in the capitalist world, so there are factors we can make use of in both periods. We must do our utmost to develop foreign economic relations even in the war period.

In observing the world's economic and political situation and essentially grasping its developing trend, we must be guided by Marxism, Leninism, and Mao Zedong Thought. Only in this way can we avoid one-sidedness in the method of thinking. The Western works popular in recent years can be used for our reference. However, we must not casually accept or adopt their basic views and concepts. The correct attitude is to assimilate with discrimination, namely, to criticize and discard the antiscientific parts, and to study and assimilate the scientific things.

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NATIONAL POLICY AND ISSUES

PRC JOURNAL ON DEVELOPING SPECIALIZED PRODUCTION

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[Article by Sun Xialiang [1327 2400 5328] of the Policy Research Office within the Ministry of Machine-Building Industry: "How Should We Go About Developing Specialized Production?"--written in May 1985]

[Text] Enterprises being "large and complete" or "small but complete" is one of our "chronic illnesses." For many years we have thought about specialization and looked forward to specialization, but actually the development of specialization has been like "a train entering a station--it blows its horn loudly and proceeds slowly." What are the reasons for this? The main reason is that we have not yet really recognized the objective patterns in developing specialized production. Thus, the policies we have already adopted have a great subjective arbitrariness about them and they cannot guide practice in accordance with the objective patterns.

How we should go about developing specialized production is basically determined by these objective patterns. Only when we have grasped these patterns and when we adopt policies and measures which accord with the patterns, will it be possible to effectively promote the development of specialized production.

The Path Taken by the Zhongyuan Roller Factory

As to what the [word indistinct] patterns in the development of specialized production are, we can be enlightened by the experiences of the Zhongyuan Roller Factory in its development from being "complete" to being "specialized."

The Zhongyuan Roller Factory in Xuchang Prefecture, Henan Province, is a specialized factory producing rollers for pulverizers. Currently it has a staff of 647 people and produces 73,000 rollers a year. The high quality and low price of the rollers have won them a reputation and they are supplied to 42 factories which manufacture pulverizers in the provinces of Henan, Shaanxi, Shanxi, Zhejiang, Sichuan and Hunan. In 1984, the factory held 25 percent of the domestic market and it played a major role in the production of rollers for pulverizers.

However, previously this was not a specialized factory producing parts for machines, but a "small but complete" factory. From 1982 when it was established

to 1983, the factory successively produced slicers, gas engines, pulverizers, sewing machines, ordinary lathes, hand-held tractors and such products. The production of these products was in general organized on the "small but complete" basis and in general quality was not good and economic results were poor. For a long period, the factory was on the verge of making losses. From 1982, the factory began to develop from being "small but complete" to being "small and specialized." It gradually discontinued the production of other products and specialized in producing rollers for pulverizers. In 1982, it produced 31,000 rollers, in 1983, 49,000 and in 1984, 73,000. The number of product types increased from 1 to 4 (flour rollers, oil rollers, tobacco rollers and paper rollers) and the number of varieties available has increased from 2 to 67. At the same time, economic results have continually improved and, despite a number of reductions in the sales price, profits rose from 80,000 yuan to 850,000 yuan in 1984.

Of the approximately 54 major factories producing flour-milling machines in the country at present, 42 of them have stopped making their own rollers. Instead, they buy them from the Zhongyuan Roller Factory. Some other factories would also like to use these rollers, but because Zhongyuan's production capacity is not sufficient, it is unable to satisfy the demand. In accordance with the market demands, the factory is adopting the following measures: 1) It is importing technology for hollow, water-cooled rollers which will greatly reduce the amount of raw materials consumed. This will alleviate the problem whereby the lack of raw materials is restricting the development of production and, in terms of performance, will bring the factory up to advanced world standards. 2) It is carrying out technical transformation. This will expand its production capacity, reduce losses caused by substandard products and raise the usage ratio of raw materials. 3) It is increasing testing equipment. Through these measures, it is planned that on the basis of improving the quality and general level of the products, it will be possible for the annual production to reach 150,000 rollers, for the factory to capture 40 percent of the national market and for the degree of production specialization to increase.

Several Basic Factors in Promoting the Development of Production

The change in the roller factory from being "complete" to being "specialized" was facilitated by the following basic factors:

1. From changes in ideas to changes in patterns of organizing production.

To change from arranging production in accordance with "large and complete" or "small but complete" patterns, first requires changes in ideas. In 1979 and 1980, the Zhongyuan Roller Factory faced a decision in terms of its operations. Either it could manufacture pulverizers or it could manufacture rollers for pulverizers. They summed up their positive and negative experiences over 10-odd years and came to the conclusion that, in terms of their production conditions and technical strengths, it would be very difficult for them to compete with other major factories in producing pulverizers. They felt that if they centralized their strengths in rollers, they could struggle to a leading position, and also felt that this would be beneficial in raising economic benefits for the society. On the basis of these ideas, they decided to take on the supporting role and not compete with the major factories. In producing rollers they developed their own superiorities.

2. Achieving breakthroughs in terms of quality and price, attracting orders, increasing batch production and developing superiorities.

In 1978, the quality of the rollers produced by the Zhongyuan Roller Factory was not good. They did not reach the industry quality inspection standard. At that time the factory was still "small but complete." It did not produce many rollers, but was unable to sell any and, thus they piled up in the factory. Thus measures were taken in three respects to centralize strengths in raising the quality of the rollers. The first was setting high quality standards, and placing strict requirements on themselves. They were not content to just reach standards promulgated by the department and thus voluntarily raised the standards for bending strength, winding strength, notch toughness, relative wear resistance and so on. Second, it added inspection and testing equipment. Successively investing 500,000 yuan, it purchased various types of physical and chemical testing and examining equipment, and established a testing and examination center. Third, it expanded its cooperation with tertiary institutions and scientific research institutions, and improved the quality of its materials, its planning, and its technology. Through these measures, the quality of the rollers improved greatly. In the 1984 industry inspection, 100 percent of the key and secondary products were up to standard. The standard set for relative wear resistance exceeded the quality standard set by the department and approached advanced world standards, with the result that the service life of the rollers increased greatly. In terms of the standards for magnetic metal content in flour after milling, the department had promulgated that it could not exceed 0.003 grams per kilogram of flour. Flour milled with Zhongyuan rollers only contained 0.0024 grams.

Increased quality resulted both in a reduction of losses due to substandard products and also a reduction of variable expenses in the cost. More importantly, it improved their reputation and attracted more orders. Following the increase in production, there was a reduction in the relatively fixed expenses in the cost. Take for example the Model 35 roller. In 1980, the fixed cost of each roller was 74 yuan. By 1984, this had fallen to 30.1 yuan. Also, after 1980, the pricing of rollers was changed from where there were fixed prices to where prices floated. In order to expand their market and in response to the great reduction in costs, the factory reduced its ex-factory prices on several occasions. This drew more orders, which in turn produced the conditions for further reducing costs and lowering prices, thus giving rise to a fine cycle. It was during this fine cycle that the major machine factories, one after another, ceased making their own rollers. The Zhongyuan Roller Factory year after year increased production, breaking down the "large and complete" operations and developing specialization. The Qingyang No 2 Agricultural Machinery Factory in Gansu produced Model 1820 rollers for pulverizers at a cost of 64 yuan each, while the Zhongyuan Roller Factory produced them at 48 yuan each, selling them at an ex-factory price of 54 yuan. Thus the No 2 agricultural machinery factory saved 10 yuan on each roller by purchasing them from the Zhongyuan Roller Factory rather than producing its own. Naturally, in this situation, it was happy to stop making its own rollers and purchase them from outside. This was also profitable for the Zhongyuan Roller Factory.

The motive force of economic factors which promotes such specialized production could not be achieved by any sort of administrative orders.

Some Questions in Terms of Patterns

From the enlightenment provided by the Zhongyuan Roller Factory in the course it followed, and by expanding our vision and summing up the experiences and lessons of specialization and reorganization in the machine-building industry over the last few years, we can see several patterns of general significance.

1. The specialized division of work in the course of production is an objective demand required by technical progress. Thus, we must uphold the unity of technical progress and the development of specialized coordination. If we divorce ourselves from the objective demands of technical progress, we will not see the development of specialized production.

The development of specialized production in the machine-building industry of various countries of the world has basically seen four stages: At the beginning, following the appearance of specialized metal-processing equipment, the machine-building industry becomes separated from general industry and becomes an independent industrial sector. This is called "primitive specialization." At this time, a machine-building factory often produces various types of machinery at the same time, and there are no clear divisions in terms of vehicle factories, machine-tool factories spinning and weaving machine factories and so on. Later, following the further specialization of processing methods and design technology, there is development to where some factories produce vehicles and some factories produce machine-tools. This is called "specialization by category." Later still, of the factories producing machine-tools, some mainly manufacture milling machines while others mainly manufacture lathes. This is called "specialization by product." About the time of World War II, following the appearance of specialized processing equipment and automatic production lines, there was a demand that components for different types of machines which had similar structure and technology be manufactured by batch production in a centralized place. This is called "specialization in terms of components and technology." In this way, not only can efficiency and results be improved, but major factories can produce different types of products and thus improve their ability to accord with market changes. Based on our nation's current situation, we can say that in general we are at a transit stage between specialization in terms of products and specialization in terms of components and in terms of technology. Thus, when we speak of "developing specialization" we are not referring to developing specialization in terms of products, but to developing specialization in terms of components and technology.

This unity between the process of technical progress and the process of developing specialized production presents questions in terms of patterns. Why, in the period of handicrafts industry and in the period when general processing equipment was the main production method, was there no specialization in terms of components or technology? Why is it that, following the appearance of "soft processing systems," specialization in terms of components and technology has developed? Both of these questions show that the degree of specialization of the production process and of the division of work is determined by, or conditioned by, the degree of technical progress. In developing specialization of production, we cannot divorce ourselves from the actual level of technical progress. However, we cannot overlook the actual demands of, and possibilities for, technical progress. If we do, it will cause the organizational forms of production to remain at their original level.

The pattern determines that in developing specialization of production, we must adopt two principles: 1. The development of specialized production must be combined with technical transformation. For a short period, we tried to achieve production specialization by spreading out the production of components. However, after the machine factories had spread out the production of the components, it was found that the factories which were to produce the components had not carried out the necessary technical transformation, and were still using their ordinary machines in production. The result was that rather than improving quality and reducing costs, the quality went down and the costs increased. The reason for this was that the necessary unity of the process of developing specialization and the process of technical progress had not been recognized. We must set standards for specialized production in accordance with the possibilities of utilizing advanced equipment. Because the base and objective conditions in each period, in each region, in each department and even in each enterprise are different, the level of advanced equipment which can be adopted in each case is different. In accordance with the different conditions, we can require that some enterprises develop specialization in terms of components while others, for a certain period maintain specialization in terms of products. However, in the past, we often proposed uniform requirements, with the result that our attempts in pursuing empty names ended in real disasters. We wasted much energy in "organizing" specialized production, but because the enterprises did not have the conditions to adopt advanced technology and equipment, no real results were achieved. The reason problems such as this arise is also the lack of recognition of the unity of the process of production specialization and the process of technical progress.

2. The development of specialized production requires as a social condition, the development of commodity exchange. Thus we must adhere to the unity of developing specialized production and developing commodity exchange. It can be said that if a society does not have commodity exchange, it cannot see the full development of specialized production.

The development of commodity exchange includes many things. In terms of the demands of developing specialization, there are at least two requirements; 1) The implementation of the free purchase and sales of commodities and the reform of the unified purchase and allocation system. 2) The implementation of floating prices and the reform of the unified fixed pricing system. The reason we must implement the free purchase and sales of commodities is that only under such a system will we be free from the regional and departmental restrictions which results from unified purchase and allocation. Machine factories will thus be able to sell their products to anyone. In this way, we will be able to achieve the centralized batch production of components. The reason we must implement floating prices is that under that system the component producing factories will be able to reduce their prices following reduction in costs. In this way, both the machine factories and the component factories will all receive benefits from specialized production.

A major reason that the development of specialization in our nation's production has been slow in the past is that we only thought about developing specialization of production and did not think about developing commodity exchange. For example, a factory which produces parts for internal combustion engines for tractors in a particular province installed a Model 195 production line for producing diesel engine gudgeon pins. Because it used cold-forging technology to replace the backward cutting technology, costs could be cut by about half.

However, although the annual production capacity of the line was 1.5 million units, the factory only arranged to produce 300,000 to 500,000 units. This situation mainly arose because there was unified distribution and allocation of products and unified fixed prices. Because gudgeon pins are locally-managed products, those produced in the province could only be distributed in that province, and the province only needed 300,000-500,000 a year. Thus, the factory only arranged to produce this many. If it produced any more, they could not be distributed. At the same time, in accordance with unified fixed prices, each gudgeon pin would cost 2 yuan. No matter how low the specialized component producing factory's costs were, each machine factory had to pay 2 yuan for each gudgeon pin. They did not gain any benefit from lower costs in the specialized factory. In a situation such as this, of course, the machine factories will not give up making their own parts and buy them off specialized production factories, and thus specialized production will not be able to develop.

The reason the Zhongyuan Roller Factory was able to develop was the implementation of regulation by market mechanism and floating prices since the 3d Plenary Session of the 11th CPC Central Committee. Of course, this problem still has not been completely resolved. Some regions still institute market blockades by means of administrative orders. They do not allow machine factories under their jurisdiction to buy rollers from the Zhongyuan Roller Factory, preferring to engage in regional self-sufficiency.

If there is not development of commodity exchange, there will be no specialization of production. This is also a problem in terms of patterns. In order to promote the development of specialized production, we must adopt two policies: 1) We must resolutely ban any sort of market blockades so that all components can be sold freely between factories; 2) We must resolutely implement floating prices and allow those scattered and backward production factories to be eliminated through competition. This will provide the greatest support for those factories engaged in specialized production.

3. The development of specialized production must be carried out on the basis of harmonizing the interests of machine production factories and component production factories. Thus, we must use the appeal of economic interests to promote the development of the specialization of production of production, and must not just use administrative orders in organizing things.

If we are to harmonize these interests, we need two conditions: 1) The quality of the products manufactured by the component production factories must be higher than the quality of the products manufactured by the machine factories themselves; 2) the price of the products manufactured by the component factories must be lower than what it would cost the machine factories to produce them themselves. The quality question is quite simple and does not need more discussion here, but the price question is more difficult and does need some explanation.

For convenience in explanation, let's first examine an actual example. A certain factory produces Model 195 diesel engines. It originally also produced the oil pumps for the engines at a cost of 7 yuan each. Later, it distributed the task of production to another factory and concentrated on the assembly of the

diesel engines. Because the batch size had not increased, the cost of the pumps remained at 7 yuan. If the pumps were sold at yuan, the engine factory while not suffering losses would not have achieved any advantage. [Sentence as received] More importantly, the pump factory would not gain any advantage and would not be willing to produce. In this situation, the higher level responsible department stipulated that the pumps be supplied at an internal coordinated price of 9 yuan each. Thus, for every oil pump purchased, the machine factory ended up suffering a 2 yuan loss. Although, under administrative intervention, the factory had to accept the losses, because the interests of the two sides were not coordinated, the enterprise could not consolidate or develop its production.

The only way to resolve this contradiction, and to coordinate the interests of the two sides, is to create conditions whereby the component factories can greatly reduce their costs. On this basis, the ex-factory price of products produced by component factories will be lower than the cost for the machine factories to produce them themselves, but higher than what it costs the component factory to produce them. Thus, we need to adopt two policies: 1) We must in a planned and focused way support a number of component production factories in carrying out technical transformation and the adoption of advanced production technology will provide them with conditions to lower their prices; 2) we must increase the degree of socialization of production. We cannot just let one component factory supply the needs of one machine factory. They must be geared toward the society. Only in this way will they be able to increase the size of production batches and centralize production, thus creating conditions for reducing costs. Only when we have these two conditions will it be possible for the prices of components produced by component production factories to be reduced by a large degree. Thus, they will be able to sell at prices below what it costs the machine factories to produce the product themselves, and at the same time, will be making a profit themselves. The Zhongyuan Roller Factory has reached this point and thus specialized production can develop further. Apart from this, there are a few policy problems. For example, there are departmental regulations that stipulate that component parts cannot be appraised as "superior national products" because their structure is too simple. This is not a policy which supports the development of production specialization, but a policy which artificially obstructs the development of specialized production, and should be changed.

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NATIONAL POLICY AND ISSUES

NEW STRATEGY OF ECONOMIC CONSTRUCTION DISCUSSED

Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 2, 20 Apr 85 pp 28-33

[Article by Zhou Yongjin [0719 3938 6855] of Changde Prefectural Party Committee, Hunan: "Tentative Discussion on China's New Strategy of Economic Construction at the Present Stage"]

[Text] All sectors of the national economy have undergone great development in concert with the gradual progress of the economic reform since the 3d Plenum of the 11th CPC Central Committee. After 3 years' forward leap following implementation of the overall responsibility system, agricultural production has approached the saturation point in the logistic curve under existing technical conditions. Industrial production is also full of vitality after consolidation and readjustment, while the social pattern of consumption is heading for a new change. China is now at an historic crossroads in its economic construction. Under such conditions, our urgent and important task is to set strategic priorities in the economic construction program, readjust the structure of production to suit these priorities, streamline the economic network, and organize a new breakthrough. In my opinion, we should, as strategic priorities in China's economic construction, provide guidance in transferring surplus rural labor to industry on the basis of steady agricultural development, properly readjust the internal layout of industry, and usher China into a new historical stage of industrialization.

1. A High Standard of Industrialization as a Historical Certainty

A high standard of industrialization is unavoidable. Why? The reason is quite clear.

1. It is an indispensable stage in the history of social development. The invention of the steam engine and the utilization of mineral energy in the 18th century ushered mankind into an industrial society. In the past 300 years, many countries have vied with one another in industrial development and have achieved industrialization in different periods. Along with the continued rise in the standard of industrialization, the agricultural population of these countries continued to decline, while their industrial output value and national income continued to rise (see table). In recent years, developments in a number of sciences and technologies, such as electronics, biological engineering, new materials and new energy, have helped some highly

industrialized countries start their march from the industrial society to the so-called "information society." A high standard of industrialization has become an important landmark of national economic development at the present stage.

Comparison of Agricultural Population, Industrial Output Value and National Income for Several Countries (figures for 1982)

Country	Agricultural labor as percentage of total social labor	Industrial output value as percentage of gross value of industrial and agricultural output	Per-capita GNP (U.S. dollars)
China	72.0	68.5	253
United States	2.1	93.0	10,672
Japan	10.4	90.4	8,817
Soviet Union	15.8	80.2	5,570
France	8.2	89.4	10,600

2. Compared with that of industry, agricultural development is relatively limited. Agriculture depends on land as its basic means of production and produces live animals and plants. The ecological balance does not permit the unlimited expansion of farmland, while the activities of animals and plants are independent of people's will. Harvests are determined largely by such natural phenomena as seasonal weather, geographical location and natural environment. Industrial production, however, is different. It is subject to fewer temporal and spatial constraints and the labor productivity can continue to grow indefinitely. In comparison, agricultural development is slower. Up to now, no country has ever become strong by relying on agricultural development.

The purpose of production in a socialist society is to meet the daily increasing material and cultural needs of the people. In other words, the purpose of production is consumption, which, however, stimulates production in return. Consumption patterns determine production structures. Human consumption pattern change with the development of productive forces. In an agricultural society, the main features of consumption are determined by the problem of food and clothing, and the material means of consumption is mainly agricultural sideline products. Agriculture is thus the main form of social production. In an industrial society, human consumption has evolved from the stage of subsistence to that of enjoyment, and in their consumption pattern, the proportion of agricultural sideline products has gradually declined along with a corresponding rise in industrial products. Therefore, industry will certainly become the main form of social production.

II. Main Causes of Slow Industrial Growth in China

Despite the influence and disruptions from many quarters in the past 30 years and more, China has been fairly successful in industrialization. In 1983, the gross industrial output value reached 608.8 billion yuan, a 22.4-fold increase over 1952, and its proportion in the gross value of industrial and agricultural output reached 68.5 percent. In the face of these achievements, however, we must also admit that China's standard of industrialization is very low. At present, we can only say that it has been transformed from an agricultural country of the past into an industrial-agricultural country of the present. We cannot claim that the transformation from an agricultural to an industrial country has been accomplished. As we can clearly see, 83 percent of its population and 72 percent of its able-bodied people have not yet been separated from the farmland. Furthermore, although the proportion of its industrial output value in the gross value of industrial and agricultural output reached 68.5 percent, this percentage does not truly reflect the standard of industrialization for the reason that the output value is given in monetary terms. Under China's present conditions, the prices of industrial products are generally higher than their value, while the prices of agricultural products are generally lower than their value. Thus the 68.5 percent proportion is only a fictitious appearance seen through the prism of the price scissors differential. In Japan, the price of one head of beef cattle is equivalent to that of one Toyota sedan car, whereas in China, each sedan car is worth 200 head of beef cattle. In China, the degree of automation, the labor productivity in industrial production, and the people's level of industrial production consumption are far, far behind those of the developed countries.

Why then is China's industrial growth so slow? The causes are certainly many, but broadly speaking, there are six main causes: (1) China is an ancient agricultural country symbolized by "men tilling the land and women operating the loom." The concept of the self-sufficient small farmers has long dominated people's minds, while the historical tradition of taking agriculture as the main occupation still exists with its profound influence on socioeconomic development. Even now, peasants engaged in industry are said to be "deviating from their proper occupation," and the idea of belittling industry and commerce still captivates some people. (2) China's industrialization has had a late start. (3) Because of the many large-scale political movements in the past 35 years in China, the time left for normal industrial development has been rather brief, and the 10 years of turmoil during the Cultural Revolution, in particular severely disrupted the industrialization program. (4) The Great Leap Forward in 1958 was an ill-considered and impractical adventure causing a drastic reduction in our resources for industrialization. (5) There have been errors in the guiding thought of the decision-makers caused by these "three illusions": First, the large collectives in the countryside caused the illusion of a labor shortage. Second, the irrational economic system as shown by the state's unified purchase and marketing at low prices for a long time dampened the peasants' enthusiasm for production, thus creating the illusion of sluggish agricultural products created the statistical illusion of a high level of industrialization. Because of these three illusions, we have always one-sidedly stressed the need for agriculture as

the foundation and failed to attach due importance to industry. Industrial growth was several times faster than agricultural growth in the past several years; however, the 1984 national economic plan for many regions still called for "guaranteeing 4 percent and striving for 5 percent" (4 percent growth in agriculture, 5 percent growth in industry) in an attempt to achieve simultaneous increases in industry, agriculture and commerce and in the belief that only this way of growth deserves to be called a "balanced development." (6) Planned control has been overrigid and the enterprises lack decisionmaking power. As a result, the law of value could not function properly.

III. Basic Conditions Are Ripe for Shift of Strategic Priority to Industry in China's Economic Construction

The basic conditions are now ripe for the shift of priority in China's economic construction to industry.

1. A solid agricultural foundation: Since the introduction of the output-related responsibility system in agricultural production, the average growth rate has reached as high as 9 percent. In most areas, the per-mu grain output exceeded 1,000 jin, an advanced world standard. In 1984, the national per-mu grain output reached 576 jin, more than in the Soviet Union (505.5 jin); and per-mu unginned cotton output reached 228 jin, more than in the United States (216.9 jin). In the same year, the amount of grain per person reached 800 jin; that of cotton, 11 jin; and that of plant oil, 20.5 jin. Furthermore, some localities had huge surpluses of the major agricultural sideline products, while the "difficulty" of selling grain, pigs, cotton and oil are being experienced everywhere in the countryside. The rapid growth of agriculture has laid a solid foundation for a forward leap in industry.

2. The huge surplus of rural labor: The overall responsibility system in the countryside has fully aroused the peasants' enthusiasm in production and increased labor productivity several times over. This increased labor productivity has led to a labor surplus. At present, one third to one-half of the labor force and labor time are in surplus and this huge surplus should serve as a reserve force for industrial development.

3. Abundant natural resources: For example, China has more than 50,000 rivers, each with a rain-collection surface of more than 100 sq km, while water-power resources reach 676 million kW, of which 379 million are available for exploitation and utilization. These resources rank first in the world and deserve to be called an inexhaustible source. Coal deposits amounting to 727.6 billion tons are spread over more than 2,000 counties and cities and are available for exploitation for the next 1,000 years. Prospecting in recent years has also discovered considerable oil reserves. The deposits of iron ore throughout the country amount to 46.8 billion tons, while those of tungsten, zinc, lithium, titanium, vanadium, molybdenum, tin, mercury and other nonferrous metals all rank foremost in the world.

4. Though somewhat below advanced world standards, China's level of science and technology is by no means low since it has already reached a definite level in applied science and technology. Personnel training has been accelerated particularly since the 3d Plenum of the 11th CPC Central Committee, and the scientific and technical ranks have grown rapidly. As long as we conscientiously implement the party's policy toward intellectuals, respect knowledge and talent, further popularize advanced technologies, and quickly train a contingent of technical personnel of the primary and secondary grades, we will be able to speed up the transformation of scientific research achievements into productive forces. Then the problem of technology will no longer handicap our industrial development.

5. China's industrial development has reached a certain degree in the 35 years following the founding of the People's Republic. Particularly noteworthy strides have been made in energy and transportation in recent years. Our coal output, steel output, power generation and crude oil output now rank third, fifth, sixth and seventh, respectively, in the world. The production of cotton textile products, bicycles, sewing machines and chemical fertilizer have also joined the foremost ranks in the world. The ups and downs in our industry during the past 35 years and the retooling of the enterprises of the means of production for other products all show China's potential for industrial development for which the 14 coastal cities and some inland cities, where industry is fast developing, are providing a strong support. All these are favorable conditions for a further leap in industry.

6. The series of reform measures taken by China in the past several years, such as opening the country to the outside world, invigorating the domestic economy, relaxing control, delegating authority to the lower levels, and the use of the market's regulatory role, have produced remarkable economic results. The 3d Plenum of the 12th CPC Central Committee decided on a comprehensive reform of the urban economic structure, which will certainly open a broad avenue for the vigorous development of China's industry.

IV. Implementing the Shift of Strategic Priorities Must Start With a Shift of Population (or Labor)

The organic composition and the level of automation in China's agricultural production are very low, while the proportion of labor-intensive production is very high. According to estimates, this phenomenon will remain unchanged for a long time. Therefore, the shift of strategic priorities to industry in economic construction must begin with a shift of population or labor.

China has a population of 1 billion, of which 800 million are peasants; such a population structure has the following implications: On the one hand, the income and living standards of peasants are low, and their inability to undertake expanded reproduction hampers agricultural development. On the other hand, since the peasants' power of consumption for industrial products is very weak, the demand for these products is very low, and industrial development is also handicapped. According to a survey conducted by the State Statistical Bureau in 1982 on 22,775 peasant households in 589 counties of 18 provinces, municipalities and autonomous regions, the average annual income of each

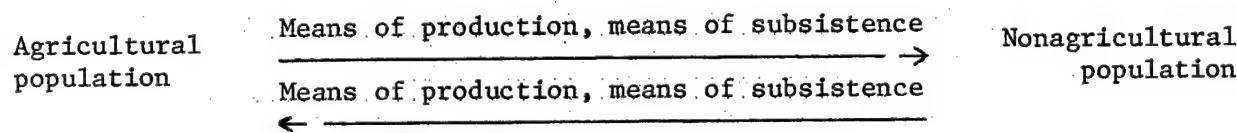
Chinese peasant was 306.28 yuan; his living expenses were 282.13 yuan per annum, or 23.50 yuan per month. His power of consumption for industrial products was thus very low. After paying his living expenses, he had only 24.15 yuan left to be used for production in the following year, averaging 13 yuan per mu of farmland. In some localities, peasants have been relying mainly on agricultural loans for their production expenses year after year. The huge volume of agricultural loans has in turn weakened the state's financial resources for key projects. In 1979, the rise in procurement prices for all agricultural sideline products temporarily alleviated these contradictions. However, it also led to a whole set of new problems, such as the increase in workers wages and the granting of food subsidies.

As a result, the state's financial burden became increasingly heavy until finally it was forced to lower the prices of some agricultural products and raise the prices of some means of production. At the same time, the bumper agricultural harvests throughout the country brought about a change in the relation between supply and demand, resulting in the surplus of agricultural sideline products to varying degrees and a drop in prices. The peasants' enthusiasm was dampened, and in some localities they passively restricted their production by cutting back on fertilizer and labor. In a certain sense, these conditions may be called a vicious economic cycle, or lopsided development. If the result of this lopsided development is likened to a string of bitter gourds, then the "800 million people working for food" have produced nothing other than the withered vines of bitter gourds.

This consequence serves as a reminder for us: the situation of "800 million people working for food" must not be allowed to continue. We must recognize our national condition of having "1 billion people and 800 million peasants" and be courageous in changing it.

At present, there are three major lines of production in China, namely, agriculture, industry and service trades; the first serves as a stepping stone for the second, which in turn serves the third in the same capacity. Service trades develop derivatively from a high level of agricultural and industrial development. Obviously, the surplus labor in China's countryside should be transferred to the industrial sector. However, what is the suitable amount of labor to be shifted? This is an important question of economic theory.

If we divide our population into agricultural and nonagricultural population, discard commodities exchanged for self-consumption within these two categories, and ignore imports and exports, then the complex exchange of commodities in the entire society can be expressed in the following formula:



This formula clearly indicates that the entire monetary income of the 800 million peasants is, in the final analysis, derived mainly from the 200 million nonagricultural population through their spending on production and daily

living. At the same time, the volume of sales of industrial products is determined by the peasants' level of monetary income.

If P_a represents China's agricultural population, P_{na} its nonagricultural population, U_i the consumption of industrial products by each peasant, and U_a the consumption of agricultural and sideline products by each nonagricultural person, the following identities objectively exist:

$$P_a \cdot U_i = P_{na} \cdot U_a; \text{ or } \frac{P_a}{P_{na}} = \frac{U_a}{U_i}$$

This formula shows that an increase in the consumption of industrial products by each peasant (U_i) will naturally be accompanied by a decrease in the agricultural population (P_a), or by an increase in the nonagricultural population (P_{na}). Now that the living standards of Chinese peasants are gradually "catching up" with those of city dwellers, and their consumption pattern is beginning to change from one of subsistence to one of enjoyment, the means of production originating from industry will go into agriculture in gradually increasing amounts. The proportion of industrial products in the consumption pattern will also continue to rise. China in its present stage must mainly adopt the labor-intensive form of industrial production. For this reason, even more people should be shifted to industry. The number of people to be transferred (x) should be based on the present consumption pattern and the trend of changes. On this basis, we can work out a scientific forecast of the consumption pattern. If values for U_a and U_i have been obtained, it will be possible to work out the number of people to be transferred (x).

Shifting the agricultural population to industry can fundamentally streamline our economy. The so-called "streamlining" is shown as follows:

$$x = \text{present agricultural population} - \frac{P_{na} \cdot U_a}{U_i}$$

1. Reductions in the agricultural population will lead to a broader scope of production from the land of each agricultural producer, and thereby help promote agricultural mechanization.
2. Increases in the nonagricultural population will naturally increase the commodity consumption of agricultural and sideline products, and a fundamental change will occur in the relation between their supply and demand. At the same time, the prices of these products can be maintained at a higher level, the peasants' economic gains will quickly increase, and their enthusiasm for production will continue to soar, thus leading to steady agricultural development.
3. Increases in the peasants' economic gains will increase their power of consumption for industrial products, which will consequently accelerate industrial development. This effect will be even more obvious when our industrial products are not quite competitive on the international market.

4. Industrial development, particularly development of processing industries for agricultural sideline products, can produce better cushioning effects on the rise and fall in agricultural output and thus help stabilize a rational agricultural structure.

From what has been described, we can see that the shift of agricultural population to industry will help guide our entire national economy onto the path of a benign economic cycle and rapid development.

V. Several Urgent Problems at the Present Stage of Industrial Development and Primary Measures for Their Solution

Since the 3d Plenum of the 11th CPC Central Committee, we have laid down the policy of "readjustment, restructuring, consolidation and improvement" in industry, expanded the decisionmaking power of enterprises, and paid more attention to the regulative role of the market. The entire industrial front is now showing its tremendous vitality. In 1978-1983, gross industrial output value rose sharply from 406.7 billion yuan to 608.8 billion yuan, a 49.4 percent increase. Thus, the increase in these 5 years was 1.32 times higher than in the 20 years from 1949 to 1969. Practice has proved the success of our reform measures.

At present, some enterprises still have difficulty sending products out and bringing raw materials in. If they continue to operate, they are facing a dim future; and if they want to change their product line, they do not have the means. They are on the brink of closing down. Some comrades who do not correctly understand the situation and have some mistaken ideas would be upset at the very mention of a "large-scale industrial development." Some of them think this is simply bombastic talk, since it is more easily said than done. Others even believe that we have already overcommitted ourselves in industry and that further development would be fundamentally impossible. In fact, a small number of enterprises have the feeling that their path is "barred by hills and streams." This is the result of contradictions accumulated over the years from the violation of economic laws, contradictions now suddenly being brought into the open. "Closing, suspending, merging and retooling" those enterprises that are "deformed babies" because of their "eating from the same pot" by no means implies "industrial saturation," but rather the beginning of a spurting development. It must be admitted that the favorable conditions for industrial development at the present stage are primary, while the difficulties are secondary and can be overcome. In my opinion, apart from the whole set of general and specific policies already adopted or being adopted for developing industry at China's present stage, the following measures should also be taken:

1. Properly implement three-level readjustment within industry and firmly uphold the policy of simultaneous improvement for state, collective and individual undertakings: State-run enterprises belong to the first level in our industry. They should be relieved of their unnecessary burden so that they can be free to engage in such modern industries as computers, new materials and new energy, to catch up with the "third wave," and to narrow the gap between China and the developed countries. The production calling for

less advanced technologies and equipment should be delegated to the local enterprises at the second level. The local enterprises in turn should delegate the production of labor-intensive and simple products to the rural and small town enterprises or individual enterprises at the third level, so that there will be more opportunity for the development of rural industry. At the same time, economic integration of enterprises at all three levels, or of enterprises at the same levels, should be implemented, so as to set up a criss-crossing industrial network. In India, the small- and medium-size enterprises are spread out in the countryside, while, according to government policy, "small- and medium-size enterprises should be allowed to do whatever they can." This policy has produced good results. In China, many major industrial products are produced in Beijing, Shanghai and Tianjin, while their accessories and spare parts are produced by rural industrial enterprises. The output value of these accessories and spare parts account for 80 percent of the total output value of all rural and small town enterprises. These rural industrial enterprises have provided good experiences for the development of rural industry.

2. Pay particular attention to the development of rural industry: The huge labor surplus, the widespread mineral resources, and the abundant raw materials for food in the countryside are great assets for industrial development. Now, according to the allocation of manpower in the suburbs of many cities in China, there is a promising future for rural industry. It should be pointed out that the localities where agricultural development is up to the required standards should develop their industry ahead of others, while those localities with a poor agricultural foundation should develop industry later and more slowly. In localities where resources are lacking the enterprises relying on their technologies should be developed so that they can take the initiative of importing the required resources.

3. Raise funds in different ways to support industrial development: Lack of funds is the most serious obstacle to industrial development in China at the present stage. To resolve this problem, apart from selective state investment, the absorption of idle funds in society, and the import of foreign capital, efforts should be made to "set the stage for giving performances," which is a good way to combine such factors of production as funds, technology, resources and labor. This method has been adopted in Jiashan County, Anhui, for raising funds to develop rural industry, and its good experiences are of great reference value.

4. Fully exploit existing technical resources: China does not have many technical personnel, and what it does have are not fully utilized. In some localities, the technical personnel are poorly paid, and in others, the transfer of personnel is prohibited. These obstacles to the flow of technical information among the scientific research and educational institutions and the enterprises must be quickly removed.

China's rural reform has brought about a forward leap in agricultural production. This is an excellent condition for large-scale industrial development. The urban reform is now deepening and will infuse new vitality into industry. As long as we firmly adhere to the major orientation of industrial development and take effective measures, industry, like agriculture, will soon take its forward leap in history!

NATIONAL POLICY AND ISSUES

SICHUAN OFFICIAL CALLS FOR CURBING FAKE GOODS

HK251548 Chengdu Sichuan Provincial Service in Mandarin 1030 GMT 21 Jul 85

[Text] At the provincial Finance and Trade Work Conference which opened on 17 July, Comrade Guan Xuesi pointed out that following the relaxation of control and the implementation of open policies in circulation channels, it is necessary to strengthen market control and resolutely curb the malpractices of producing fake commodities.

Comrade Guan Xuesi said that since the beginning of this year, the province has carried out reform of the economic structure focused on cities in an all-round way. We have further relaxed control over circulation channels and have implemented flexible policies. The situation is excellent. However, following relaxation of control over markets, we have not yet formed a new management method to follow this up. That is why there has been an increase recently in speculation and violations of market law. It is noticeable that more and more fake goods and commodities have appeared in the market. In particular, fake medicines, drinks, and foods have posed a serious threat to the people's health. This merits our serious attention.

Comrade Guan Xuesi also pointed out that in order to strengthen market control, industrial and commercial administration departments must now firmly outlaw those enterprises and individuals who produced fake goods, confiscate their goods, and forfeit their illegal profits. It is necessary to strengthen market control over important means of production and durable consumer goods in short supply. In addition, it is necessary to provide trade fairs in large and medium-sized cities with sanitation and health inspectors to conduct examination of meat, poultry, eggs, and other foods. It is necessary to seriously deal with the current problem of disrupting markets. The profiteers' behavior of selling fake goods and commodities must be theoretically exposed. Those violating laws should be punished according to the law.

CSO: 4006/820

NATIONAL POLICY AND ISSUES

HENAN HOLDS TELECONFERENCE ON COUNTERFEIT COMMODITIES

HK300605 Zhengzhou Henan Provincial Service in Mandarin 1230 GMT 29 Jul 85

[Excerpts] Last night, the provincial People's Government convened a telephone meeting on banning counterfeit commodities. Governor He Zhukang pointed out: When dealing with cases concerning counterfeit commodities or the interests of the state and consumers, we must seek truth from facts and take a serious attitude toward it.

The meeting was presided over by Zhang Zhigang, Standing Committee member of the Provincial CPC Committee and vice governor. Leaders of the Provincial CPC Committee and the Provincial Government, including Lin Yinghai, Song Zhaosu, (Hu Zhiyun) and (Zhong Lizheng), participated in the meeting.

Vice Governor (Hu Zhiyun) said in his speech: Recently, there have been a number of cases concerning shoddy medicine and counterfeit well-known commodities, such as cigarettes, wines, bicycles, and television sets. Judging from the total output and sales volume of the province, the counterfeit commodities have brought about bad influences and evil consequences though their number is small and their cases isolated. Basically speaking, the practices of enterprises and individuals, particularly decisionmakers, who produce and sell counterfeit commodities have violated the socialist goal of production and the purport of serving the people. They have also seriously polluted the general mood of society, disrupted the socialist economic order, and undermined the in-depth implementation of structural reforms and the policy of invigorating the internal economy and opening to the outside. Therefore, governments at all levels must attach great importance to the issue. The governments should treat the work of eliminating and banning counterfeit commodities as the most important at present. Every department and bureau in charge of the production and sale of commodities should seriously examine the products of their trades and promptly stop producing or selling those that have problems. In such cases, they should report to the upper level for instructions. On the present well-known and quality products, we should strive to maintain and improve their quality in terms of raw materials, techniques and quality control. In addition to maintain the quality of the present well-known products, we should strive to develop more well-known ones.

In his conclusion, Vice Governor (Hu Zhiyun) urged all workers and cadres at all levels, particularly leading cadres of departments and bureaus, to take the

lead in rectifying the style of running business in implementing the policies and regulations of the party and the government, and in resolutely banning counterfeit commodities and the evil work style of unscrupulously seeking after money. We should resolutely deal with people who have taken part in these activities and help them correct their mistakes. We should seriously deal with those who refuse to correct their mistakes or hinder the examination work. We should also seriously and severely deal with those who should enforce the law but have violated it. The provincial government will soon promulgate a circular on banning counterfeit commodities, so that the whole society can concern itself with and support the work of banning counterfeit commodities.

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NATIONAL POLICY AND ISSUES

BRIEFS

BEIJING ILLEGAL SPECULATION CASES--Beijing, 24 July (ZHONGGUO XINWEN SHE)-- Today JINGJI RIBAO reports that in the first half of this year, industrial and commercial administrative departments in Beijing examined and dealt with 17,421 illegal cases of speculation. An analysis of the cases reveals that the number of cassette tapes and video tapes illegally sold has increased by a large margin this year. Some 1,200 pornographic video tapes and 73,000 pornographic cassette tapes. In April, 600,000 vulgar tabloids were confiscated or handed over in Beijing. The amount of money illegally obtained from foreign exchange dealings has sharply increased this year, and a sum of 23,000 yuan was confiscated. Beijing strictly forbids running business without business licenses. It has resolutely dealt with those who ran business without business licenses. Since the beginning of summer, some state-run and collective enterprises as well as individual households have been selling beer, cold drinks and cigarettes at illegal, high prices. This has aroused strong dissatisfaction among the masses. This matter is still under investigation by industrial and commercial administrative departments at various levels. [Text] [Beijing ZHONGGUO XINWEN SHE in Chinese 0405 GMT 24 Jul 85 HK]

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PROVINCIAL AFFAIRS

SHANXI'S STRATEGY FOR ECONOMIC DEVELOPMENT

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] in Chinese No 3, Mar 85 pp 2-7

[Article by Wang Maolin [3769 5399 2651] of the Taiyuan City Government: "Develop Advantages To Link the East and the West and Rely on Urban Areas To Develop Rural Areas--A Discussion of Shanxi's Strategy for Economic Development"]

[Text] In order to realize the strategic goal of China's socialist modernization, last year the central government set forth the strategic principle of "relying on the east, moving toward to the west and developing the middle." In other words, in the 1980's we should put the stress of development on the east coast and gradually shift the stress of investment and construction to the west; in the 1990's we should fully utilize the advantages of great economic strength and advanced science and technology in coastal areas and put the stress of investment and construction on central China; and by the end of this century or later, we should gradually consolidate the achievements of construction in central China, increase comprehensive production capacity and economic results and shift the stress of investment to the west. Guided by this strategic ideology, all provinces, municipalities and autonomous regions have set forth their own strategic goals and tasks. How then should we devise an economic development strategy for Shanxi Province? In my opinion, we should not only have a clear understanding of the situation in our province but also observe what is going on around us; we should not only establish a rational internal structure of economic development but also look for a correct principle of external relations.

According to these principles, I think Shanxi's development strategy can be expressed like this: "Develop advantages to link the east and the west and rely on urban areas to develop rural areas." In other words, externally we should "develop advantages to link the east and west" and internally we should "rely on urban areas to develop rural areas" so as to achieve the purpose of revitalizing Shanxi Province.

I. "Developing Advantages To Link the East and the West"

The overall strategy of national economic development is the major premise conditioning economic development in Shanxi Province. We must be subordinate and conducive to the implementation of the overall national strategy. As far

as the whole country is concerned, the regional economy consists of three parts--the coast, hinterland and frontier, or east, west and central China. Since the founding of the PRC, industrial growth has been faster in central and west China than in the coastal areas of east China. However, since the 3d Plenum of the 11th CPC Central Committee, the total industrial output value of 12 coastal provinces and municipalities in the east still accounted for about 64 percent of the nation's total while that of 17 western provinces and municipalities accounted for only 36 percent. I think this is what the state is based on when devising the development strategy of "relying on the east and moving toward the west."

In "relying on the east and moving toward the west," the stress is put on the first part--relying on the east. In other words, we should make full use of the better developed coastal areas of east China as a foundation and further develop the economy, culture and technology of these areas and cities to make them maintain a certain amount of potential energy so as to bring along less developed central and western areas. The central government has decided to implement special policies in coastal cities and special economic zones to enable them to import advanced technology and accelerate construction by opening to the outside world. This is a condition we cannot compare. The great advances of coastal cities are undoubtedly a pressure on us.

At present, the economic development strategies of coastal cities all emphasize the principle of "pushing toward the outside and carrying out internal integration." "Pushing toward the outside" means entering the international market. "Carrying out internal integration" means obtaining energy and natural resources by carrying out economic and technological cooperation with inland areas and at the same time dominating the inland market by transferring technology, personnel and managerial know-how to inland areas. As an energy, heavy and chemical industrial base, Shanxi Province has an unshirkable duty to transfer coal to support the nation. However, it is very difficult to prosper only by selling energy and natural resources. We should also notice that after the stress of state economic construction shifts to the west, our existing market may become even smaller. As they grow in strength, western areas will become our big rivals. Therefore, the central areas will be under "attacks from both sides."

We should also have a correct analysis of the strengths and weaknesses of Shanxi's economy. The first advantage of Shanxi's economy is abundant energy resources. Shanxi's coal deposits account for over 60 percent of the nation's total. We have a wide variety of coal. The quality of our coal is good. Our mining conditions are superior. More than 100 million tons of coal, about 60 percent of the nation's total, are shipped from Shanxi Province. Eighteen provinces and municipalities depend on Shanxi for the energy supply of their industrial production. This is a decisive factor in the country. Coal makes it possible for Shanxi to develop pit-side power stations and transform coal into secondary energy resources. But, what is more important is that coal is very appealing to eastern areas. They long to carry out cooperation with our province on a larger scale to satisfy their energy needs. This basic advantage is a material foundation for developing Shanxi's economic and trade relations with other provinces. It determines the scale and range of Shanxi's commodity exchange and economic and technological cooperation with other provinces. The

second advantage is abundant natural resources. Shanxi is rich in important metals such as iron, aluminum, copper and molybdenum. It is also rich in such natural resources as alkali, lake salt, limestone, asbestos, plaster stones and perlite. We have excellent conditions for development of the metallurgical industry and broad prospects for the new building materials industry. The third advantage is relatively strong basic industries. The metallurgical, machine-building, chemical and textile industries which are of a considerably large scale produce a wide variety of products. The Taiyuan Iron and Steel Company is the national base of special steel. The machine-building industry can manufacture most equipment needed by Shanxi Province and produce many high-grade products. The basic chemical industry can use local coal for deep processing. Conditions for the development of coal processing are exceptionally good. The fourth advantage is ideal location, convenient transportation and short transport distance between Shanxi and the southeast coast areas. By setting forth the principle of "relying on the east, moving toward the west and developing the middle" the state demands that the eastern areas transfer some relatively advanced technology to inland areas and coastal cities exercise the role of economic radiation. We are in a favorable position of internal integration. Advanced technology and managerial know-how will be spread first in here. At the same time, the vast hinterland behind us will become the major market of commodities developed in our province.

The main weaknesses and insufficiencies of Shanxi's economy are as follows: The proportion of labor- and capital-intensive enterprises is too large compared to that of technology- and knowledge-intensive enterprises. The technical and managerial levels of industrial production are relatively low. Commodity exchanges focus on selling raw materials, intermediate and primary products. Multiple and precision processing is insufficient. The daily consumer goods industry, in particular, is very backward. Product quality is low, variety is limited and economic results are poor. The large proportion of heavy industry has created such problems as shortages in communications and transportation and serious urban pollution, and has exacerbated the problem of insufficient water resources in Shanxi Province. Technical and managerial personnel are in great demand in our province. Shanxi ranks 21st among China's 29 provinces and municipalities in the proportion of technical personnel per 10,000 staff members and workers. As an inland province, we lack harbors. This puts certain restrictions on foreign trade. Our economic and technological cooperation with foreign countries have barely begun.

After summarizing these factors, we can tell that the trend of our borrowing the technical forces and managerial know-how of coastal areas to revitalize Shanxi's economy will remain unchanged for a long time to come; the situation that the southeast coast areas rely on Shanxi's coal for lifelines will also remain unchanged for a long time to come. This determines that Shanxi's economic development strategy should be "developing advantages to link the east and the west." According to this principle, we should use rich energy and natural resources as capital to attract technology, equipment, funds and people from eastern areas. By strengthening our economic and technological cooperation with eastern areas, we should absorb their advanced technology, managerial know-how and other strong points to accelerate Shanxi's technological progress and transform backward industries. We should be good

at using our strong points to make the other side help us overcome our weaknesses. Since western areas are abundant in energy and mineral resources and we have a strong heavy industry, we may consider opening up the western market as the key point of our strategy. On this basis, we should focus on developing special steel products, heavy-duty machinery, multiple processing of chemical and medical products and new building materials and provide mining equipment, transportation equipment and pit-side power equipment for the state in developing western areas. Shanxi has long-standing trade relations with western areas. As long as we improve the quality, design and variety of our products, it is not impossible for us to expand our traditional markets, provide the people of western areas with daily consumer goods, mostly light and textile products, and serve as a good pathbreaker for implementing the state's development strategy of "relying on the east and moving towards the west."

"Linking the east and the west" has been elevated to the level of strategy. It does not deny Shanxi's influence and role in north China or even entire northern areas; nor does it deny that products other than coal and heavy industrial products should enter the eastern market. With the east coast "pushing toward the outside," their products will be geared mainly toward the international market and there will be an excellent opportunity for us to expand our market through "internal integration."

II. "Relying on Urban Areas To Develop Rural Areas"

"Relying on urban areas to develop rural areas" is a regional strategy for Shanxi's internal economic development. At the same time, it is also a basic way to break through the restrictions of the existing economic system and develop a socialist commodity economy.

The strength of urban areas is the possession of comprehensive functions. In other words, urban areas have concentrated industries, developed trade, convenient communications, concentrated labor forces and strong scientific and technological capacities. The gross output value of urban industries accounts for 70 percent of Shanxi's total industrial output value whereas roughly 70 percent of our province's industrial enterprises are concentrated mainly in the four cities of Taiyuan, Datong, Yangquan and Changzhi. Their total industrial output value and their tax payments and profit delivery both account for 60 percent of the province's total. Focusing our economic development strategy on central cities will create such effects as little input, great output, short production period and great results. The investment returns of large cities are usually better than those of small cities. The distribution of Shanxi's major cities is fairly even. Their scale is appropriate. Their communications with Tianjin and Beijing are relatively convenient. Moreover, their neighboring areas all have abundant energy resources and raw materials. All these are favorable conditions for economic development. Therefore, Shanxi's economic development strategy must focus on relying on urban areas and developing the comprehensive functions of urban areas in organizing economic life. We should build Taiyuan, Datong, Changzhi, Yuncheng and Jincheng into open, network-like economic zones with differing characteristics and scale to bring along the vast rural areas surrounding them and promote the rational development of Shanxi's economy.

The urban economy depends on and conditions the rural economy. Urban areas are the market place for farm products and the workforce as well as the supply base of the means of production and manufactured consumer goods for rural areas; rural areas are the market place for urban manufactured goods as well as the supply base of raw materials, means of subsistence and labor force for urban areas. The vigorous development of the rural economy is an indispensable condition for strengthening the construction of central cities. With the rural economy changing to a specialized, modernized commodity economy, it is urgently required to unclog the circulation channels between urban and rural areas, open up markets for farm and sideline products which are increasing as each day goes by, and satisfy peasants' growing needs for manufactured goods, science and technology, culture and education. Therefore, we must consider "relying on urban areas to develop rural areas" as our major development strategy.

Shanxi's rural areas have several obvious advantages: 1) Among Shanxi's 119 counties and districts, 79 have coal resources and certain foundations and experiences in developing small coal mines. 2) The development of rural and small town enterprises can be supported by nearby urban industries; equipment, materials, technology and personnel are readily available and information transmission is relatively fast. 3) Facilities constructed for energy, heavy and chemical industrial bases are conducive to promoting specialization of the rural economy. Along with the vigorous development of the tertiary industry in urban areas, more channels have been opened up for the prosperity of rural areas. The key to developing the advantages of rural areas is to concentrate on "relying on urban areas." In other words, we should use the great attraction, radiation and comprehensive service abilities of urban areas to strengthen the mutual infiltration of the urban and rural economy, promote the readjustment of the internal structure of agricultural production and stimulate great development of the rural commodity economy. Especially, we should use developed economy, modernized science and technology, advanced managerial know-how and large numbers of qualified personnel to help rural areas do a good job in the construction of small cities and towns, vigorously develop rural and small town enterprises and absorb the surplus labor forces of rural areas.

Meanwhile, we should emphatically develop certain mountainous areas to help peasants become prosperous as soon as possible by relying on local resources. Specifically, we should emphasize the following three points: 1) We should emphatically develop the natural resources of mountainous areas. Seventy-one counties, about 82 percent of Shanxi's counties, are located in mountainous areas. The basic way for peasants to prosper in mountainous areas is to develop local resources. Relying on urban areas to develop rural areas is to solve the transportation problem first and then use the equipment, technology and personnel of urban areas to help the people of mountainous areas develop natural resources. We should devise a complete set of preferential treatment policies to encourage the development of mountainous areas. To solve the transportation problem, depending on the state for building large railways is not enough; we must get to work ourselves to build small railways with used rails taken from large railways during annual replacement (or small rails such as those produced by the Taiyuan Iron and Steel Company) and use our own locomotives to connect these railways with main railway lines. 2) We should

help peasants with technology, equipment, personnel and information in developing rural and small town enterprises. We should create conditions and relax policies to accelerate the development of these enterprises, especially in mountainous areas. Industrial enterprises should give support to rural and small town enterprises in regard to the distribution of products and spare parts. Industrial, commercial, tax, monetary, price and supplies departments should all devise concrete policies and measures to accelerate the development of rural and small town enterprises. 3) We should readjust the internal structure of agricultural production. We should plant whatever is suitable according to the actual conditions of mountainous areas and encourage peasants to grow trees and grass, develop a diversified economy, and breed cattle, sheep and rabbits to provide industrial raw materials and meat for urban areas and help convert the disadvantages of mountainous areas to advantages.

III. Ten Ideas for Accelerating Shanxi's Economic Development

The key to revitalizing Shanxi's economy is to do a good job in reforming the economic system and implementing the comprehensive open-door policy. Based on this understanding, I suggest that Shanxi adopt the following 10 measures:

1. Promote the reform of urban economic system and further invigorate the economy. There are three pressing tasks for Shanxi's reform: 1) Start establishing the city-administered county system and give full play to the role of cities in organizing economic activities. Putting counties under the control of cities is a requirement of the economic reform and totally conforms with the law of economic development. We may first experiment with it in pilot units. For instance, we may first abolish Jindongnan Prefecture and incorporate its counties into Changzhi and Jincheng cities, and then establish the city-administered county system on a province-wide basis. 2) Organize economic activities through central cities instead of central and local authorities. We must be determined to put all enterprises under the jurisdiction of cities. Instead of exercising direct control over the economy, party and government organs should control the economy mainly through economic management organs. All departments and bureaus under direct provincial jurisdiction will not give direct commands to enterprises. In accordance with the spirit of "simplifying administration and delegating power to lower levels," management authority should be expanded for local organs and enterprises and unnecessary special departments and bureaus should be abolished or incorporated accordingly. 3) Increase the vitality of enterprises and expand their decision-making power. Conscientious efforts should be made to sort out and consolidate companies and gradually transform them into economic entities with enterprise characteristics. It is necessary to implement the responsibility and tenure systems of plant directors and managers in an all-round way, ensure that plant directors really have duty, responsibility and authority and strengthen enterprises' production and management command systems. Economic responsibility systems of all forms must be perfected in accordance with the spirit of enlarging the gap by giving handsome bonuses and heavy fines. We should make new breakthroughs especially in the labor and personnel system. For instance, cadres should be invited instead of appointed; the fixed wage system should be changed to a floating wage system; and the fixed work system should be changed to a contract work system. Reforms in planning, pricing, supplies, monetary, cultural,

educational and scientific research departments should all be conducive to and in line with the endeavor to invigorate enterprises.

2. Implement the comprehensive open-door policy and accelerate development by opening up. Opening up in all directions means opening to foreign countries as well as other provinces. Preferential treatment policy should be formulated to absorb foreign capital and encourage all fields to come to develop Shanxi. Where appropriate, special inland economic zones (such as the Xiaodian area of Taiyuan) may be set up to create good investment environments in Shanxi Province. Foreign businessmen should be allowed to establish wholly-owned enterprises in addition to joint ventures in the special economic zones so as to further invigorate Shanxi's economy. Foreign trade districts may be established in Taiyuan, Datong, Yangquan, Changzhi and Yuncheng. These cities may be given greater authority in foreign trade. Or, various provincial foreign trade companies may integrate with local foreign trade companies to establish, under the unified leadership of the province, a powerful, highly efficient foreign trade and economic network. To promote economic and technological cooperation with foreign countries and increase our foreign trade volume, we should open up our own ports and shipping lines through cooperation with coastal areas. In technology transfer, all fledgling industries must insist on the direct import of the newest technology of the 1980's. In view of the actual conditions of our province, we should focus on developing technology- and knowledge-intensive industries and avoid importing backward equipment and technologies that require a large amount of water or cause serious pollution problems. On this basis, conscientious efforts should be made to popularize and assimilate imported technologies, gradually accumulate experiences and form our own technological strong points.

3. Be united in dealing with other provinces, carry out comprehensive utilization and develop the advantages of coal. Due to historical reasons, the coal price is lower than its value, causing a chain reaction in the economic relations of society. This means the more coal we ship out, the greater our loss will be. This not only hinders the improvement of the people's living standards but also causes an imbalance in the happiness and hardship of different sectors of the national economy. In addition to asking the state to readjust coal prices and increase subsidies for coal transfer, we should formulate a unified provincial policy, specify the scope of external coordination and set prices according to the variety, quality and heat content of coal. Only then can we make coal a "hot-selling" product and really play up its advantages.

Constructing coal and energy development bases should be one way to carry out the comprehensive production of power, iron and steel, machine-building, building materials and coal processing industries. While doing a good job in the comprehensive utilization of coal, we should use the funds obtained by transferring coal to other provinces to develop light, textile, daily consumer goods, electronics and new building materials industries which are indispensable to our province.

In addition, we should also formulate some policies for the issue of Shanxi's coal transfer to other provinces. In the past, coal usually accounted for 70 to 75 percent of total railway transport volume. After 1975, the proportion

increased year after year. By 1984, it reached 89.8 percent, causing transportation shortages in other fields and definite problems in Shanxi's industrial production and the people's daily life. I think when making arrangement for railway transport capacity, we should, on the prerequisite of ensuring transportation for coal under unified state distribution, stipulate appropriate proportions for the volume of local coal transported to other provinces, the transport volume of other goods and materials for industrial production and the transport volume of the people's daily necessities. Calculated on the basis of historical records, the volume of coal transported to other provinces should not exceed 80 percent of total railway transport volume.

4. Accelerate technological transformation and tap the potential of old enterprises. Due to various barriers between central and local systems, current technological transformation is relatively scattered and unable to gain momentum or make key points stand out. In view of this situation, central cities should be given necessary authority to unify and organize the technical transformation work of all industries in each city. Instead of relying only on state appropriations, the funding problems of technological transformation should be solved by the economic levers of prices, taxes and credit. Technological transformation loans may be returned before taxes to encourage enterprises make technological progress. Technological transformation must be organically combined with urban reform and industrial readjustment and reorganization to achieve the unity of economic, social and environmental results. Special attention should be paid to the structural reform of industrial sectors, namely the structural reform of an industry. This is worth our special attention because it is a very important point of changing Shanxi's industrial lineup. We should mete out a feasible plan for changing the backward situation of Shanxi's technology so as to give us something to go by and avoid blindness in imports.

5. Concentrate on the multiple processing of products and turn the advantage of natural resources into the advantage of products. At present, Shanxi mainly exports raw materials and products of primary processing which require high energy consumption but yield little results. Take coal processing for example. By the end of this century, Shanxi's coal output should reach 400 million tons. If we use 20 percent of the coal for coking, we would be able to produce 40 million tons of coke and over 1 million tons of tar as by-products. After processing, their output value may reach 8 billion yuan and their profits may reach 2 billion yuan according to primary estimates. After further processing, they may be turned into such products as dyestuff, medicine, pesticide, plastics and synthetic fibers and their economic results may increase 10-fold. If we take the road of pressurized coal gasification, we still can achieve the same amount of economic results because our technology has matured. We should take immediate actions to clarify which natural resources exported by Shanxi can be turned into products, which intermediate products can be turned into final products and which low-class products can be turned into high-class products, and then combine enterprises' technological transformation and imports to increase the degree of product processing. This is an important measure to change Shanxi province from poor to rich. Therefore, it deserves our full attention in economic development.

6. Invigorate circulation and communications to bring about a great development in the commodity economy. Conditions should be created to establish trade centers of different scales and forms and crisscross circulation networks which center on cities and extend in all directions. Preferential treatment policies should be worked out to encourage peasants to come to urban areas and invite all provinces to trade with Shanxi and establish plants and various trade organizations in Shanxi. It is necessary to organize and build trade centers for the means of production, gradually change the traditional practice of monopoly procurement and distribution of the means of production and invigorate the market for means of production. We must be determined to enforce a complete decontrol of pork, vegetables, eggs, fruits and aquatic products, abolish command plans, let production and marketing departments meet directly and let prices fluctuate with the market. We should emphatically develop transportation and communications undertakings to serve the development of the commodity economy.

7. Vigorously develop tertiary industries, a prominent weak link in Shanxi's economy and therefore a strategic policy in revitalizing the economy. While expanding the service scope of traditional industries, we should add new varieties and exploit new fields such as technical consulting, information, household service, interior decoration, renting and leasing and fast food industries. The entertainment and tourist industries in particular should be used as key points to stimulate great developments in trade, catering and service industries and highway transportation. The public utilities and infrastructure of urban areas may be constructed by the combined efforts of the state and the people under the guidance of a unified plan. Efforts should be made to encourage the intellectuals and engineering and technical personnel of universities, colleges, scientific research units and other fields to render technical service for production units. We should support peasants in establishing tertiary industries of all kinds in urban areas and extensively absorb rural funds to better enliven urban tertiary industry.

8. Vigorously develop the collective economy in urban and rural areas. First of all, we should eliminate various restrictions on the collective economy and stipulate in policy that both large and small collective enterprises are owned by the collective and their staff members and workers should be treated exactly the same. Industrial, commercial, tax, price, monetary, planning and public security departments should correct their understanding of the collective economy and vigorously support its development. State-run enterprises should be encouraged to establish subsidiary plants of a collective nature, distribute products and spare parts to collective enterprises and support them with equipment, technology and personnel.

9. Organize and build the Shanxi Economic Development General Company. This company should aim at "developing Shanxi's natural resources, accelerating Shanxi's economic development and establishing links with other provinces and foreign countries." It should be authorized by the province to engage in foreign trade, import technology and equipment and absorb foreign capital. It should be allowed to raise funds and issue developmental stocks at home and abroad and use idle funds of society to carry out business operations. It should also be allowed to exploit various mineral resources in Shanxi. It may concentrate on a selected group of urgent projects to establish fledgling

industries for our province. Or it may join investment with foreign businessmen or neighboring provinces and municipalities in establishing shipping lines, building joint fleets and opening up sea routes to Hong Kong, Macao and Japan to create a new scene in Shanxi's international trade. This company may establish a board of directors formed by investing parties and hire a general manager to implement the general manager responsibility system.

10. Do a good job in the development of competent people. Economic growth depends on the growth of competent people. This is a fundamental strategic issue in economic development. We should, in accordance with the requirements of the "four modernizations," promote competent people who have pioneering entrepreneurial qualities, creative specialists and management-type managers so as to change the intellectual and age structure of enterprise leading bodies. Education is the foundation of personnel development. In order to train more competent people, intellecutal investment must be increased by a relatively large margin, especially during the Seventh 5-Year Plan period, to do what should have been done in the past. Strategically speaking, we should increase educational investment even if we have to reduce the number of factories, because we will gain greater results in the long run. While doing a good job of elementary education in primary and middle schools, we should encourage all trades and professions to cultivate college graduates through all channels and in all forms. At present, a prominent problem is that Shanxi's outstanding students have been attracted to major schools in other provinces and few of them have ever come back to work in Shanxi. We should concentrate on reforming institutions of higher education, invite famous scholars from abroad to teach in Shanxi and import advanced teaching equipment to equip major schools. We should also formulate some policies to promote the directional training of outstanding students and encourage them to return to work in Shanxi.

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PROVINCIAL AFFAIRS

VILLAGE ENTERPRISES MEETING HELD IN FUJIAN

OW251445 Beijing XINHUA Domestic Service in Chinese 1505 GMT 23 Jul 85

[By reporter Liu Xianpeng]

[Text] Fuzhou, 23 July (XINHUA)--A provincial conference on village and town enterprises was held in Putian City, Fujian Province, from 17 to 22 July. The conference pointed out that village and town enterprises should draw a lesson from the Jinjiang fake medicine case and that resolute blows should be dealt to economic criminals.

The conference held: In recent years, village and town enterprises have played a leading role in Fujian Province's economic development and have displayed their strong vitality. However, some serious problems have also occurred in such enterprises. Some village and town enterprises in Jingjiang Prefecture made fake medicines in large quantities and sold them in various parts of the country through bribery. Such a disgusting criminal act of seeking financial gain by harming others is a flagrant violation of party discipline and state law and a gross transgression of social ethics, thus arousing public indignation across the country. Fake wine, fake gourmet powders, fake cigarettes, fake phosphate fertilizer, and fake seeds have also appeared in the wake of the fake medicine case. In some localities, hundreds of thousands of jin of tree seeds that could not germinate were sold to others. In addition to suffering economic losses, those who had bought such seeds had to delay their planting time.

The conference held: Such criminal acts of sabotaging the healthy development of village and town enterprises, gross violations of party discipline and state law, must be dealt with resolutely, promptly, and sternly. Whose involved who should be given prison terms must be given prison terms, those who should be expelled from the party must be expelled from the party, and their leaders should also be investigated for their responsibility in this regard. Only by so doing will it be possible to check such unhealthy trends and to ensure the sound development of village and town enterprises along the socialist road.

While summing up lessons learned from the Jinjiang fake medicine case and other cases of violating party discipline and state law, comrades attending the conference held: Invigorating the economy and strengthening management must be

done simultaneously. It is necessary to further grasp the essence of the Central Discipline Inspection Commission's "open letter" and to check and find out which village and town enterprises are healthy, negative, or illegal. It should be understood that dealing blows at economic criminals is aimed at promoting the healthy development of village and town enterprises and that we should not lose our courage to develop such enterprises because of the Jinjiang fake medicine case.

The conference laid down the following four-point regulation for the development and consolidation of village and town enterprises. Vigorous efforts should be made to develop village and town enterprises that, with self-raised funds, cooperate with others in foreign trade and whose products, guaranteed for quality, have a market; village and town enterprises, with a given foundation and an output value of more than 30 million yuan, should constantly improve their industrial structure, product mix, technology, and management; village and town enterprises whose product quality is poor, whose factories are duplicates of others, and that depend on big loans for their existence and have not been registered and licensed must be seriously consolidated; and village and town enterprises which violate party discipline, state law, and social ethics by defrauding people of money with fake products must be firmly banned.

The conference also called on various localities not to develop village and town enterprises in a sweeping way, much less should such enterprises compete with one another in growth rate. They should give first priority to product quality. It is necessary to strengthen education in observing the law and discipline and social ethics among village and town enterprises.

CSO: 4006/820

PROVINCIAL AFFAIRS

HUANG JINGBO ON IMPROVING POOR DISTRICTS, WAGES

HK290315 Xining Qinghai Provincial Service in Mandarin 2330 GMT 27 Jul 85

[Text] Governor Huang Jingbo said in his government work report at the third session of the Sixth Provincial People's Congress: We must strive to complete within 2 years the construction support projects in the 86 poor townships of the province. He was speaking on helping poor areas to cast off their poverty.

He said: In supporting these areas, we must not only provide financial assistance but, more important, provide assistance in technology and talent and switch from blood transfusion-style relief work to constructive help by strengthening the economic motive force in the poor areas. We should encourage them to catch up with affluent areas on the basis of self-reliant efforts.

Governor Huang Jingbo said in his report: The total worker wage bill of the province last year rose by 21.93 percent over 1984. The average annual wage showed an increase of 19.5 percent. Some 661,000 square meters of workers' housing were built in urban areas by units under ownership by the whole people, and 320,000 square meters of housing were built by private individuals in the rural and pastoral areas. Average net income per capita in the province was 294 yuan, an increase of 42 yuan over the previous year. Year-end savings deposits in the urban and rural areas showed a rise of 24.3 percent compared with the beginning of the year.

CSO: 4006/818

PROVINCIAL AFFAIRS

XIZANG CHAIRMAN ON ECONOMIC SUCCESSES

OW271216 Beijing XINHUA in English 1206 GMT 27 Jul 85

[Text] Lhasa, 27 July (XINHUA)--The Tibet Autonomous Region made a breakthrough in its economic development last year, Doujie Caidain, chairman of the regional government, said here today.

In a review of the region, he said that it had achieved a total industrial and agricultural output value of 806 million yuan in 1984, 14.7 percent up on 1983.

Total grain output was 494,000 tons, 34.1 percent up, he said.

The per-capita income of Tibetan peasants and herdsmen rose to 317 yuan, 101 yuan more than in 1983.

He attributed this success to the current economic restructuring and a flexible policy adopted by the central government.

Thanks to the introduction of a market economy for farm, livestock and local products, retail sales reached 1.05 billion yuan last year, 2.4 times the 1983 figure; sales by collective individual businesses accounted for 52 percent.

Nearly 5,000 people from other parts of the country came to Tibet to do a total business of 30 million yuan last year.

Similarly, trucks from elsewhere carried 500,000 tons of commodities to Tibet last year, 97.9 percent up on 1983.

CSO: 4020/307

PROVINCIAL AFFAIRS

BRIEFS

QINGHAI RURAL REFORMS--Governor Huang Jingbo said in his government work report at the third session of the Sixth Provincial People's Congress: This year the province's rural areas must continue to perfect the various types of household contract responsibility systems with payment linked to output, reform the system of procuring agricultural and sideline products, readjust the structure of rural production and the mix of crops and livestock, and develop primary and secondary industries as well as local strong-point items. The province should institute a new production structure with comprehensive agricultural-forestry-animal husbandry operations and coordinated development of crop cultivation, stockbreeding, and processing. We must increase the proportion of forestry and animal husbandry in agriculture, and integrate planting grass and trees with raising livestock. We must uphold the principle of actively developing diversification without any slackening of grain production, and support and protect the key commodity grain-producing areas and specialized grain-growing households in developing grain production. At the same time, we must carry out grain conversion in a planned way and promote increased value of agricultural output. [Text] [Xining Qinghai Provincial Service in Mandarin 2330 GMT 28 Jul 85 HK]

NEI MONGGOL TOWNSHIP ENTERPRISES--To date Nei Monggol Region has nearly 10,000 township enterprises run by the individuals, about 7.4 times the number of collective township enterprises. About 510,000 persons are working in township enterprises throughout the region, of whom 350,000 are working in township enterprises run by the individuals or by several households. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 8 Jul 85 SK]

JILIN INDIVIDUAL-RUN BUSINESS--As of the end of June, Jilin Province had 30,087 households that had begun to engage in industrial production or to open businesses, which involved 45,063 persons in production and operations. The total number of households that have engaged in industrial production or business has reached 234,513, involving 312,037 persons in the business, a 69 percent increase in the number of households and an 82 percent increase in the number of workers over the figures for the corresponding 1984 period. [Summary] [Chang-chun Jilin Provincial Service in Mandarin 1030 GMT 11 Jul 85 SK]

CSO: 4006/820

ECONOMIC MANAGEMENT

IMPORTANCE OF MANAGEMENT IN BUSINESS COMPETITION DISCUSSED

Beijing QIYE GUANLI /ENTERPRISE MANAGEMENT/ in Chinese No 4, 5 Apr 85 pp 20-22

/Article by Lan Dunhua /5695 2415 5478/, manager of Hanjiang County Silk Craft Factory and Yangzhou City Necktie Factory, Jiangsu: "Master Management, Be Brave in Competition"/

/Text/ Our factory is a small township enterprise whose main products are hand-plaited pure silk Obi girdle bands for Japanese kimonos /he fu yao daisheng 0735 2591 5212 1601 4939/ for export to Japan. The factory has grown from small to large in size in 10 years and has been making steady progress, with the number of establishments doing business with it increasing from 2 to 10. The annual export volume has reached 380,000 pieces and the volume of business totaled more than 280 million Japanese yen. In September last year, the Yangzhou City Necktie Factory was officially established for the purpose of producing neckties for Western-style clothes. The daily output of neckties is now 3,000 and the products are selling well in 27 provinces, municipalities and autonomous regions across the country and in the United States, Britain, Malta, Japan, Hong Kong and other places.

From my experience in enterprise management for 10 years, I felt that as an enterprise leader, I must not only be at home with production but must also learn how to do business to become an expert in operations. Since the principal task of the rural and small town enterprise is to invigorate the economy, production will not amount to anything and management will become empty talk if it is operated poorly.

As far as the enterprise leader is concerned, I think he must do well the following five areas:

1. Studying and Mastering the Psychology of Consumers. Shifting from a purely production-type to production-management-type operation, the factory is maintaining closer and more direct relations with consumers. Thus whether or not the products are salable and suitable to their needs or whether or not they are welcomed by consumers will determine the rise and fall of an enterprise. The prevailing slogans that "consumers are above all" and "consumers are emperors" are not intended just to please the public with claptrap but in a certain sense to reflect the nature of the production of an enterprise. Consequently we are paying more attention to understanding the psychology of the

consumer. In dealing with foreign businessmen in particular, we have devoted attention to engaging in social comprehensive studies politically and economically to learn about their national customs and living habits. When the statue of Great Master Jian Zhen 7003 4176 /The Tang Dynasty Buddhist monk invited to spread Buddhist teachings and Chinese culture in Japan in the eighth century who later died in Japan/ was brought back to China for display in 1980, I had a premonition based on the increasing development of Chinese-Japanese friendship that a "Chinese Yangzhou craze" might be whipped up in Japan. Thereupon I designed Obi girdle bands with designs of Chinese ancient weaponry, which, as expected, were sold out as soon as they hit the Japanese market. In my association with Japanese friends, I have found that the Japanese people are fond of tortoises and that many things in Japan have tortoise-shell designs reflecting the Japanese people's mentality of cherishing longevity of life. I made tortoise-shell designs to satisfy this psychology; based on the Japanese people's love of cherry blossoms and Chinese chrysanthemums, I also made designs of cherry blossoms and chrysanthemums. The Obi girdle bands bearing these designs are welcomed by Japanese businessmen. Japanese businessmen have shown great confidence in us because our products suited the taste of the Japanese people. Since 1981, our side has been providing the Japanese businessmen with samples, instead of the other way around. As for prices, starting from 1982, the Japanese side has offered the price while our side has set it.

2. Launching attacks with initiative, reason and restraint: To operate and do business well does not mean persistently beggin in servility. We must also have the boldness of vision, courage and resourcefulness and launch attacks with initiative, reason and restraint. Early this year I received a foreign businessman, an old customer, who has dealt and cooperated with us in business for 10 years. In our business negotiations in 1985, I raised the price 25 percent over the original basis, which he refused to accept. I said: "You have been doing business with China for 10 years and you are very clear about China's economic development. We had enormous cheap labor in the rural areas 10 years but now the people's living standard has gone up. If you still insist on the old price, you will be destabilizing the contingent of processing workers." The businessman asked: "Then why did you agree to lower the price last year?" I replied: "Your market was poor last year, if I did not lower the price, you could not carry on. We did the business at a loss in support of you in consideration of our friendship and cooperation. I am sorry that you do not understand this point now." Realizing that I was not giving in, the foreign businessman said: "You let me take this trip to China for nothing deliberately." I said: "Please do not accept the price reluctantly if you think it is too high." As this deal was about to fall through, I knew in my heart that he would not let go of this piece of "choice meat." By that time, a salesman from the provincial silk import and export company stepped in to save the situation by suggesting a 5-percent reduction in price. The Japanese businessman agreed but I said: "It is all right to cut 5 percent but our business volume should increase 30 percent on top of the original since our profit margin is so thin that we have to sell more." Both sides reached an agreement in the end with the price up by 10 percent and business volume increasing by 30 percent. I have received more than 10 groups of traveling businessmen since winter last year and spring this year. All the prices were up by 10 percent in 1985 and the number of orders placed for goods also showed substantial increase over the past.

3. Paying Attention to Improving Service in Selling: Service after sale is an important means and link and an extension of the production process. He who takes an attitude that "all is well with the world once the products are sold" does not know how to do business. As a common practice, we are keeping a record of sales units and are sending people out and inviting people in periodically each year to solicit the opinions of users and improve service attitudes and the quality of products based on their comments. After our hand-plaited pure silk neckties were first introduced in the economic column in the 17 October 1984 RENMIN RIBAO, numerous units and individuals sent in letters asking to buy them. A young man in Sishui County, Shandong Province, enclosed money in his letter for the purchase. In response, we sent him the merchandise. But he promptly returned the necktie with a very discourteous letter strongly criticizing our product. On the basis of that letter, I immediately suggested three courses of action: 1) write him a letter of greeting to apologize, admit the poor quality and style of our product, pledge to make improvements from now on and thank him for his criticism. 2) Based on his age, send him a new-style necktie in exchange. 3) Send him another necktie free of charge as a gift and expression of friendship. Comrades in the business unit who refused to accept the criticism at that time considered that young man too "cocky." They said that by branding our product as inferior while all others were sending in letters in praise of our fine product, he was looking for bones in an egg. But I insisted that by criticizing our factory's product as inferior as he did it showed at least that not everyone welcomed or recognized the characteristics of the neckties produced by our factory and that we should make further efforts to sum up experience and improve quality. By sending him another necktie as a gift, he would definitely tell others about the story of the necktie. His publicity would help us tremendously and more people would take note of and recognize our factory's products. Since then, whenever we selected neckties for customers, we would pay attention to factors such as age, sex, physical build, height, skin complexion and the color of Western-style clothes in order to make the correct choice outright.

4. Striving To Learn the Knack of Doing Business: Doing and running business takes a lot of learning, as business will improve with indepth learning of the knack of doing business. In April last year, an individual customer made a special trip to our factory to make a purchase. After the price was agreed upon, the buyer found that he did not have enough money to make the return trip and haggled over the price. I said: "The money for the goods belongs to the factory and must be paid; I can personally lend you the money for traveling expenses." Many comrades in the factory were worried for me afterwards, they thought that the 20 yuan I lent to the buyer would go down the drain since he live so far away and operated individually and did not leave anything behind at the factory as a pledge. I was very confident because although this man was an individual operator, he came to Yangzhou quite often and knew several people I was acquainted with. Since I helped him out when he was in need, as a rule, he would be more grateful to me than to compromise his conscience. As expected, he immediately sent back the money in the exact amount as soon as he reached home and also asked his daughter to write me an ebullient letter. In August, he came to our factory again to make another purchase.

5. Mastering Three-dimensional Operations: In keeping with the unprecedented development of modern science and technology, entrepreneurs should make full use of modern propaganda tools, news and information and other means to make horizontal and vertical and tangible and intangible economic contacts to make the customers recognize our products, search them out because of the products' good reputation and buy them enthusiastically. On 18 February 1982, GUANGMING RIBAO published a news photo taken by a XINHUA reporter identifying me as China's "expert on Obi girdle bands for kimonos." As a matter of fact this was nothing unusual but it was also published by newspapers in Japan thus attracting numerous traveling businessmen to come to our factory. A traveling businessman named Masatoshi Matsumura /2646 2625 2973 0448/ who was passing through Shanghai on his way back to Japan after ordering goods in Nanjing received a phone call from his chairman of the board of directors telling him that my photo was in the Japanese newspapers. Finding the "Yangzhou Obi girdle bands" insufficient for market demand, he returned to Nanjing to order more. Three-dimensional operations not only can increase business volume but can also save products and enterprises from a hopeless situation. This year, by using the techniques for producing hand-plaited Obi girdle bands for kimonos, we produced the unique "Jade Flower Brand" pure silk hand-plaited neckties which were unanimously selected by foreign businessmen to fill the gap in necktie products. The neckties are well-shaped, durable, wrinkle-proof and have a three-dimensional touch and other fine charactersitics; the pure silk hand-stitched neckties produced for the domestic market are of bright colors, artistic and in good taste, they are elastic and have other fine points. However, contrary to our expectations, 6 salesmen who traveled over 39 large, medium and small cities in the country did not receive a single order. Then, a responsible person of the province's rural and small town enterprise bureau came to our factory to gather samples for use in an exhibition sale in Beijing to mark the 35th National Day. I suggested at that time that the neckties for Western-style suits worn by the more than 200 workers at the exhibition hall be supplied by our factory at a preferential price. People from all circles showed interest in our neckties when they appeared in the capital for the first time. Zhao Zhongxiang /6392 1813 4382/, announcer of the Central Television Station, bought 14 neckties at one time. Young announcer Xue Fei /5641 7378/ who covered the National Day events on the spot was wearing a necktie produced by our factory. To publicize our products, taking the opportunity of visiting the exhibition, I made a special trip to the Central Television Station and the Central People's Broadcasting Station on 4 October to show our goods and produced a feature for the Central Television Station: "Western-style Suits and Neckties" to be shown in the "At Your Service" program. On 17 October, I also put a news commercial in RENMIN RIBAO's economic column for publicity. The power of public opinion is inestimable as the situation immediately took a sharp upward turn, people, cables and letters kept pouring in from various parts of the country and from the United States, Japan and Hong Kong to make purchases, thereby turning goods not much in demand into goods in great demand at once. Our neckties are now selling well in various provinces, autonomous regions and municipalities directly subordinate to the central government and in the United States and Japan.

The economic structural reform has made competition of enterprises more difficult as good prices are paid for good quality and low prices for poor quality.

Better run enterprises will prosper and poorly operated ones will decline. To cope with this historic transformation, I am of the opinion that enterprises should pay attention to issues in the following areas:

1. It is necessary to relate producers with buyers. Fundamentally speaking, the interests of producers and buyers are identical. The buyers are willing to accept goods from producers only when they are of fine quality and prices are low; on the other hand, producers can develop production more extensively when the volume of demands increases. Last year when the sale of Obi girdle bands in Japan declined, a businessman had to drastically reduce his order with us. He was always apologetic whenever he saw me. Nevertheless, I considered the hardship a thing of transient nature and was sure that a new upsurge would come around. To strengthen our relationship with him, I voluntarily reduced the price by 10 percent so that he could make a profit. As expected, his situation took a turn for the better this year and more orders were placed with us. Consequently, I raised the price by 10 percent, we both have accepted the lowering and raising of prices for mutual benefits and coexistence.
2. It is necessary to relate small quantities with large batches. We have often encountered such a situation in our business dealings with foreign businessmen whose orders for Obi girdle bands range from several to more than 10 pieces, although the quantity is small, we are willing to do business all the same. Although the quantity under order may be small from the immediate point of view, it may grow from small quantity to large batches from a long-range point of view. In our history of running the Obi girdle band business for 10 years, this situation is a common occurrence to us. This is also true in the necktie business, as we often receive letters from customers buying one or two neckties. However, through these letters we are able to get a picture of the living standard and demands in an area before pushing sales there on a large scale with a definite objective in view.
3. It is necessary to relate the negative aspect with the positive aspect. The quality of our products is not to be judged by ourselves alone; the customers will have the final say. We must let others find fault, make captious comments and even nitpick. We should take note of negative opinions in order to make positive improvements. Several years ago, the Japanese side told our factory that our Obi girdle band products were not stiff and hard enough for them to order more. We immediately looked into the matter and found that this was mainly due to the substandard dye chemicals produced in the country. This problem was quickly solved by importing dye chemicals from Japan and more orders for goods were received.
4. It is necessary to relate business booms with business slumps and vice versa. Business booms and business slumps will never remain constant, during the winter and summer seasons when the necktie business is slow, we have to think about the brisk seasons in spring and autumn by producing more stylish, colorful and better neckties for the market. During a business boom in particular we must remain clearheaded and get second-generation and third-generation products ready to see that "we have them when others do not; when others have them, we make better ones; when others make better ones, we produce new things; when others make new things, we make changes; when others make changes, we sell at cheaper prices." At present, besides fast sales of hand-plaited pure silk neckties and silk stitched neckties, our factory has made ready the second-generation products which will be put on the market once the existing products become unsalable.

ECONOMIC MANAGEMENT

XIAN HOLDS MEETING ON ECONOMIC CRIMES

HK251519 Xian Shaanxi Provincial Service in Mandarin 0500 GMT 21 Jul 85

[Text] Yesterday morning the Xian City CPC Committee and People's Government held a mobilization meeting at the city government auditorium on cracking down on economic crimes harming the people.

In order to consolidate and develop the current excellent situation, to protect the interests of the masses, and to ensure the physical and mental health of the people, the Xian City CPC Committee and government recently decided to hit hard at various crimes and illegal activities in economic field through the city. The main targets of the struggle are those who produce and sell rotten and bad meat and foods and beverages with poisonous and harmful materials; those who forge, steal, and illegally sell famous brand and fine-quality products; and those who speculate and swindle.

All these illegal activities have seriously violated the criminal law and should be hit hard, swiftly, and strictly.

In his speech mayor (Yan Zhengzhong) said: These economic criminal activities which harm the people have seriously disrupted the market and undermined the current reform of the economic structure.

The mayor emphatically pointed out that all country and district CPC Committees and all government departments must strengthen their leadership and widely and thoroughly mobilize the masses. It is necessary to seriously deal with problems which have been exposed in the current struggle. We must firmly grasp the struggle to the end and achieve remarkable success, and must not do it in the way of a fine start but a poor finish and must not give up halfway.

CSO: 4006/820

ECONOMIC MANAGEMENT

OFFICIAL REVEALS PRODUCTS QUALITY DRIVE

OW231315 Beijing XINHUA in English 1209 GMT 23 Jul 85

[Text] Beijing, 23 July (XKNHUA)--China is taking economic, legislative, and judicial and administrative measures to further improve the quality of industrial products.

As part of the country's quality drive, a nationwide industrial products examination campaign is now in full swing, according to Zhu Yulong, a leading official of the Quality Bureau under the State Economic Commission.

Sixteen special groups have been formed of officials from the State Economic Commission, the State Standards Bureau, Metrology Bureau, Commodity Inspection Bureau and various industrial departments, Zhu Yulong said.

Zhu Yulong held that the quality of China's industrial products has improved in recent years. Especially those produced by state-owned enterprises thanks to the import of advanced technology and technical transformation in enterprises, as well as to the improved management resulting from enterprise streamlining. This, he said, has enabled the quality of various industrial products, including products for export to be raised.

In fact, he noted, the laws and regulations enacted in recent years have also helped guarantee or raise the quality of industrial products. The laws and regulations include those governing food hygiene, medicine management, industrial product licensing and inspection of exported commodities.

Zhu Yulong disclosed that the State Council is now discussing regulations on industrial product quality, which, he added, are expected to be promulgated soon.

China is now improving its quality inspection system by combining state supervision, social supervision and consumers supervision.

The state would begin, from the third quarter of this year, to exercise compulsory state inspection on some major industrial products such as high-pressure containers, medicines, motor vehicles, mining machinery and food. Those products that have reached the standards stipulated by the state will be granted production licenses, while those not up to the state criteria will be banned.

All these measures, Zhu Yulong concluded, will greatly help raise the quality of China's industrial products within 3 to 5 years.

ECONOMIC MANAGEMENT

BRIEFS

SICHUAN MEASUREMENTS, STANDARDS WORK--According to SICHUAN RIBAO, Provincial CPC Committee Secretary Yang Rudai, Governor Jiang Minkuan, and Vice Governor Gu Jinchi and Wu Haiqing inspected the provincial Standards and Measurements Bureau on the afternoon of 22 July. They demanded that the standards and measurements administrative departments play their functional role, stimulate improvement in product quality, and protect the interests of consumers. The responsible comrades pointed out: In the future, when products for which there are standards are not produced according to the standards or cannot meet the demands of the standards, they should be handled as lower-grade products at lower prices, or even scrapped. This is to protect the interests of consumers. [Text] [Chengdu Sichuan Provincial Service in Mandarin 0300 GMT 26 Jul 85 HK]

QINGHAI TALENTED PEOPLE--Governor Huang Jingbo pointed out in his government work report at the third session of the Sixth Provincial People's Congress: Qinghai is facing an extremely urgent and outstanding problem in its efforts to promote the invigoration and take-off of its economy, and that is the exploitation of resources of talent. We must speed up the training and discovery of talented people and also pay attention to maintaining stability among them, that is, we require both sons and daughters. The main thing is to rely on the existing intellectuals and science and technology personnel in the province, because they are familiar with the situation here, have established close ties with the masses, and have made contributions to the province's development. The government at all levels must therefore respect knowledge and talented people, and solve the practical difficulties in their work and their reasonable demands regarding daily life. [Text] [Xining Qinghai Provincial Service in Mandarin 2330 GMT 28 Jul 85 HK]

CSO: 4006/820

FINANCE AND BANKING

HEBEI REPORT ON FINAL ACCOUNTS AND BUDGET

SK280320 Shijiazhuang HEBEI RIBAO in Chinese 1 Jul 85 p 2

[*"Excerpts" of report of 1984 final accounts and 1985 draft budget, delivered by Zhou Guoqing, director of the Hebei Provincial Financial Department, at the third session of the Sixth Provincial People's Congress on 19 June]*

[Text] 1. 1984 Final Accounts

Under the development of the party rectification and the economic restructure, our province's political and economic situation in 1984 was very good. On the basis of the sustained, steady, and coordinated development of national economy, our province further achieved a turn for the better in the financial situation. Both revenue and expenditure increased by a large margin over the previous year. The province achieved a balance between revenue and expenditure and had a small surplus.

The total budgetary revenue set forth in the 1984 budget approved at the second session of the Sixth Provincial People's Congress in June 1984 was 3,739 million yuan. Through the implementation of the revenue plan, the total revenue reached 3,549 million yuan as of the end of 1984, as a result of the fact that coal and cigarette enterprises made up for the deficits caused by their failure to fulfill the previous year's budgetary targets. The total expenditure was 2,206 million yuan. After adding the special funds that the province returned to the central Financial Department and the expenses provided by surplus funds and floating funds of the previous year, the total budgetary expenditure, as of the end of the year, was 4,049 million yuan. According to the current compiled final accounts, the total revenue was 3,910 million yuan, accounting for 110.2 percent of the budget and showing an increase of 11.6 percent of 407 million yuan over the previous year. The results of major revenue targets were as follows:

- 1) Tax revenue was 3,158 million yuan, accounting for 113.9 percent of the budget and showing an increase of 16.1 percent or 437 million yuan over the previous year.
- 2) The revenue of the enterprises was 633 million yuan, accounting for 90.5 percent of the budget and basically maintaining the previous year's level.

3) We collected 59.8 million yuan of depreciation funds for the central Financial Department, accounting for 116 percent of the budget.

The total expenditure in 1984 was 3,586 million yuan, accounting for 88.6 percent of the total expenditure budget and showing an increase of 26.9 percent over the previous year. The progress and the results of implementing the expenditure were better than those in the previous years. The results of major expenditure projects were as follows:

- 1) The allocation for capital construction was 670 million yuan, fulfilling the budget by 77.8 percent.
- 2) The expenditure in tapping potential among the enterprises, conducting enterprise transformation, and conducting scientific and technological projects for three purposes amounted to 280 million yuan, fulfilling the budget by 91.7 percent.
- 3) The expenditure in supporting agricultural production and the expenditure in agricultural undertakings totalled 336 million yuan, fulfilling the budget by 90.5 percent.
- 4) The expenditure in cultural, educational, scientific, and public health undertakings totalled 1,031 million yuan, fulfilling the budget by 97.7 percent.
- 5) The expenditure in administrative management was 520 million yuan, fulfilling the budget by 93.8 percent.

In 1984, the province also collected 310 million yuan of funds for the construction of key energy and transport projects, fulfilling the target assigned by the central Financial Department by 178 percent. The province purchased 178 million yuan's worth of treasury bonds, fulfilling the assigned task by 104 percent.

The aforementioned situation has proven that the status of our province's 1984 final accounts was good. In 1984, the provincial government focused its financial work on attending to the following several tasks:

- 1) The provincial government played a role as a master in managing financial affairs and further strengthened the leadership over the financial work. In 1984, the provincial government organized forces to conscientiously investigate the 1983 financial work done by financial departments at different levels. The provincial government commended 15 prefectural, city, and county governments, and 158 advanced collectives and individuals that scored marked achievements in their financial work. It also helped 13 counties suffering deficits sum up experiences and lessons and formulate measures to improve the situation. The provincial government also conducted general propaganda on financial and tax work, carried out the second-step tax reform, and organized forces to conduct general inspections on financial and tax work. In 1984, there were no counties suffering deficits, and 16 counties that had relied on financial subsidies in the past changed their outlook.

2) The provincial government focused on developing the economy, improving economic results, and developing financial resources. In 1984, the provincial Financial Department spent 1,160 million yuan of funds for production, accounting for 32.5 percent of the total expenditure and showing an increase of 23 percent over the previous year. All economic departments and enterprises, on the one hand, made efforts to develop production, improve the quality of products, and enliven commodity circulation, on the other hand, they firmly attended to the work of turning enterprises' deficits into profits and improving economic results. Marked achievements were made in this regard.

3) The provincial government focused on reforming the financial and tax revenue system in order to strengthen the vitality of the enterprises. In accordance with the plan of the State Council, since last October, our province has been carrying out the second-step tax reform among state enterprises. The second-step tax reform is a transition from handing over both taxes and profits to the state to handing over taxes by substituting taxes for profits. Enterprises hand over several types of taxes to the state instead of profits and may use the after-tax profits. By so doing, the enterprises are given vitality and reserve strength, a steady growth of the state revenue is ensured, and favorable conditions are created from the urban economic restructure. In 1984, the provincial government carried out a method of "prefectures and counties obtaining the above-quota revenues and cities proportionating the sharing of increased revenue" in order to arouse the enthusiasm of prefectures, cities, and counties for increasing revenues. Better achievements were made in this regard.

4) Marked achievements were made in strengthening the collection and management of tax revenue. Through conscientiously implementing the instructions of the central leading comrades on strengthening tax revenue work, the governments at all levels further eliminated a lopsided view of "benevolence" and strengthened leadership over tax revenue work.

5) The provincial government strengthened the management of expenditure and supported the development of cultural, educational, scientific, and public health undertakings. In recent few years, financial departments at all levels concentrated more funds on promoting the development of cultural, educational, scientific, and public health undertakings. From 1980 to 1984, the province's expenditure in cultural, educational, public health, and scientific fields increased from 635 million yuan to 1,030 million yuan, showing an annual average increase of 12.9 percent. Simultaneously, the province persistently carried out the principle of using various ways and means to begin new undertakings and enthusiastically supported the collectives and the individuals to run cultural, educational, and public health undertakings. Such practices not only accorded with the interests of the state and the people's expectations but also saved the state expenditure and helped promote the development of all undertakings.

Although our province had improved the financial situation in 1984, the increase in revenue still could not meet the demands of expenditure because of the more accumulated deficits caused by a shortage of financial resources over the past few years. The enterprises' unreasonable economic results conditioned the increase in revenue: There were loopholes in revenue and expenditure due to poor management and supervision. Under the situation in which the

province has realized a turn for the better in financial work, we must lower our guard, but conscientiously engage in our work, and strive to greatly improve our financial situation. [Sentence as received]

2. The 1985 Draft Budget

The year 1985 is the first year that we are implementing the decision of the 3d plenary session of the 12th CPC Central Committee and carrying out the reform of the economic structure centering on urban economy. In order to develop the excellent current situation and to ensure a steady development of the national economy and the smooth progress of the economic restructure, a principle of the budget has been put forth as follows: We should develop commodity economy, improve economic results, strive to open financial resources, and increase revenue. In accordance with the principle of keeping expenditure within the limits of income, we should ensure the needs for the reform of wages, prices, and economic systems; continue to support the development of cultural, educational and scientific undertakings; improve the people's livelihood; further strengthen the management of and the supervision over financial work; strictly control expenditures; and ensure a balance between revenue and expenditure.

In accordance with the aforementioned principle and the state-assigned revenue tasks, the total budgetary revenue in 1985 is 4,107 million yuan. Calculated in terms of comparable items, the real increase is 8.2 percent over the previous year.

The 1985 revenue budget is planned in accordance with our province's national economic plan. In 1985, the total industrial output value is planned to increase 8 percent, the total agricultural output value is planned to increase 6 percent, the volume of retail sales of commodities is planned to increase 20 percent, the cost of comparable products of industrial enterprises is planned to decrease 1.2 percent, industrial enterprises are planned to make up 32 percent of their deficits, the expenses of commercial enterprises are planned to decrease 1.2 percent, and commercial enterprises are planned to make up 6 percent of deficits.

Calculated in terms of the current financial system, after deducting 1,634 million yuan that should be returned to the central Financial Department from the total 1985 budgetary revenue, our province may arrange 2,473 million yuan of funds for expenditure, an increase of 12.1 percent of 266 million yuan over the 1984 budget. The province has concentrated added financial resources on ensuring the reform of the wages and price systems, supporting intellectual development, and improving communications and transport conditions major expenditures are as follows:

- 1) The funds for capital construction are 124 million yuan in order to maintain the capital construction targets assigned by the central authority.
- 2) The funds for helping the enterprises tap potential and conduct transformation are 33 million yuan, a drop of 43.7 percent from the 1984 budget.
- 3) The funds for simple construction is 35 million yuan, a drop of 22.6 percent from the 1984 budget.

- 4) The funds for 3-purpose scientific and technological projects are 27 million yuan, an increase of 20.9 percent over the 1984 budget.
- 5) The funds for supporting agricultural production and agricultural under-takings are 273 million yuan, an increase of 11.3 percent over the 1984 budget.
- 6) The funds for cultural, educational, scientific, and public health under-takings are 1,078 million yuan, an increase of 23 percent over the 1984 budget.
- 7) The funds for comforting and compensating bereaved families and funds for social relief facilities are 94 million yuan, an increase of 7.1 percent over the 1984 budget.
- 8) The funds for administrative management is 48 million yuan, an increase of 21 percent over the 1984 budget.
- 9) Reserve funds are 77 million yuan, equal to the figure of the previous year.

We should make efforts to develop production, stimulate the economy, firmly attend to increasing revenue and saving expenditure, and strive to fulfill or overfulfill this year's financial tasks.

3. Be united, and strive for satisfactorily fulfilling the 1985 budgetary financial tasks.

In order to satisfactorily realize this year's budget, we should focus on the following tasks:

- 1) We should develop the economy and open up financial resources. All enterprises must further correct the ideology of management, attach importance to raising the economic results, and prevent a blind growth rate.
- 2) We should continue to achieve the reform of the financial and tax revenue system and arouse the enthusiasm of all fields for increasing revenues and saving expenditures. The State Council decided to carry out from 1985, a new financial system of "dividing different types of taxes, appraising and deciding revenue and expenditure, and each level taking responsibility for assigned jobs." The system will not be changed within 5 years. In accordance with the guidelines of the regulations of the State Council, the province has assigned specific measures for implementing the system and formulated specific measures for encouraging the departments at different levels to increase their revenues. Simultaneously, we should firmly attend to the work of setting up township financial departments. In accordance with specific conditions, we should use various methods of management. We should finish the work of setting up township financial departments within this year.
- 3) We should strengthen the management of tax revenue and vigorously organize revenues. We should continue to conduct the propaganda on tax revenue work, and educate the enterprises and individual businessmen on paying various types

of taxes in accordance with the law. Governments at all levels should continue to strengthen the leadership over the tax revenue work, support tax collectors to exercise their functions in accordance with the law, and educate cadres to eliminate a lopsided view of "benevolence" but should never be allowed to go beyond the limits of authority in allowing reductions of or exemptions from taxes for certain units.

- 4) We should persist in the principle of building up the country through thrift and hard work to manage well and use funds. With regard to the use of funds, we should persist in the principle of ensuring key projects, keeping expenditures within the limits of income, and maintaining a balance between revenue and expenditure. We must spend the money that must be spent and make the most of the funds in a timely manner. We must be resolute in not spending the money that must not be spent, oppose extravagance and waste, and strive to handle well more affairs with less money. We should continue to implement the principle of the state, the collectives, and the individuals, making a concerted effort; follow the guidance of the overall plans and policies; and concentrate social funds on the four modernizations.
- 5) We should strengthen management and supervision in order to promote the smooth progress of the reform of the economic structure. We should emancipate our minds; pioneer the road of advance; strengthen management; check and correct in a timely manner the activities violating financial and economic discipline, including activities of seeking private gains at the state's and collectives' expense; and set up and perfect essential management systems to stop up all loopholes in order to ensure the smooth progress of the economic restructuring.

CSO: 4006/818

FINANCE AND BANKING

GUANGXI USES CREDIT FUNDS TO SUPPORT RURAL ENTERPRISES

HK241549 Nanning Guangxi Regional Service in Mandarin 1130 GMT 22 Jul 85

[Text] Agricultural banks and credit cooperatives at all levels in our region have correctly handled the relationship between exercising control over major issues and allowing flexibility on minor ones in the situation of the noticeable contradiction between loans supplied by agricultural banks and credit cooperatives and loans demanded by township and town enterprises and have flexibly used and arranged for credit funds to vigorously support township and town enterprises.

From January to June this year, under the premise of working within the mandatory plans, all agricultural banks and credit cooperatives throughout the region issued to township and town enterprises a total amount of loans of 225,890,000 yuan, which was 180 percent more than in the same period last year.

The foundation of township and town enterprises in our region is relatively weak and they must be supported with a large amount of credit funds. Since the loans for township and town enterprises were separated from the agricultural loans as an independent account and were controlled by mandatory plans, the loans for township and town enterprises have not been enough to go round and their supply has been unable to meet the demand. In these circumstances, agricultural banks and credit cooperatives at all levels in our region have begun by helping enterprises improve their management and by accelerating capital turnover and have worked hard to strengthen the control over credit funds and business. While helping enterprises tap potential of their own capital, agricultural banks and credit cooperatives at all levels in our region have stepped up the recovery of loans due on the one hand and in accordance with the principle of helping the good enterprises, have issued loans to enterprises on the other hand. In doing so they have resolved the better township and town enterprises' difficulties in the shortage of credit funds.

From January to June this year, the whole region recovered a total amount of loans of 173,610,000 yuan from township and town enterprises and the amount of loans recovered in this period were 119,680,000 yuan more than in the same period last year. The loans issued to township and town enterprises in this period were 144,420,000 yuan more than in the corresponding period last year. Better economic results have also been made.

Supported by the loans of 11,370,000 yuan issued by local agricultural banks and credit cooperatives, the enterprises run by some 1,420 townships, town, joint households, and individual peasant households produced an output value of 21 million yuan and made profits of 1.6 million yuan in the first half of this year. The output value and profits were 60 and some 200 percent more respectively than in the corresponding period last year.

CSO: 4006/818

FINANCE AND BANKING

BRIEFS

JILIN TREASURY BONDS--By the end of May, urban and rural units and individuals throughout Jilin Province subscribed to 159.95 million yuan of treasury bonds, accounting for 98.8 percent of the state-assigned task. [Summary] [Changchun JILIN RIBAO Chinese 30 Jun 85 p 1 SK]

HEBEI CURRENCY WITHDRAWAL--In the first 5 months of 1985, the industrial and commercial banks of Hebei Province withdrew 1.254 billion yuan of currency from circulation, which accounted for 57 percent of the annual plan, withdrawing some 263 million yuan more than the same period of 1984. [Summary] [Shijiazhuang HEBEI RIBAO in Chinese 30 Jun 85 p 1 SK]

JILIN TAX REVENUES--Jilin Province collected 1,511,440,000 yuan in taxes in the first half of 1985, of which 1,048,820,000 yuan was industrial and commercial taxes, fulfilling 51.8 percent of the annual plan if calculated in terms of comparable items, and showing an increase of 25 percent over the same period of 1984. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 8 Jul 85 SK]

NEI MONGGOL FINANCIAL REVENUES--In the first half of 1985, Nei Monggol Autonomous Region fulfilled its annual plan for financial revenues by 56.5 percent, surpassing the figure of the corresponding 1984 period by 30.2 percent. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 13 Jul 85 SK]

CSO: 4006/818

INDUSTRY

SHANGHAI'S FIRST-HALF INDUSTRIAL OUTPUT UP 12.8 PERCENT OVER 1984

HK250521 Beijing CHINA DAILY in English 25 Jul 85 p 1

[Text] Shanghai--The country's largest industrial city, Shanghai, has reported record production levels in the first half of this year.

And people's incomes have increased by an average 24.3 percent, Li Maohuan, director of Shanghai Statistics Bureau, announced yesterday.

Industrial development saw a steady increase in the first 6 months of this year. Industrial output reached 41.159 billion yuan, an increase of 12.8 percent over the same period last year, Li said. The growth rate easily passed the 8 percent planned for the year, Li said.

Light industry accounted for 23.165 billion yuan worth of output up 14.5 percent on the same period last year.

Reforms in the city's economic structure, saw a 32.6 percent increase in collective-run industry. And state-run industry grew by 9.8 percent, Li said.

Modernization of factories has resulted in rapid increase in the production of expensive commodities, Li said.

In the first half of this year the output of television sets increased by 53.8 percent--including twice as many colour TV sets as last year. Tape recorder output rose by 66 percent, washing machines by 77.3 percent and refrigerator production increased nearly 5-fold.

Investment in capital construction for state run units increased by 19.2 percent.

Emphasis has been laid on investing in the city's essential services and improving the investment environment, Li said. Investment in transport, communication and public services has doubled, and education, health and the arts have received 63.8 percent more money than last year.

The director said the people's spending power had increased enormously. Consumer spending reached 8.29 billion yuan in the first half of the year, 40.7 percent more than the same period last year.

A survey of 500 households showed that people on average spend 78.4 yuan a month on daily essentials--food, housing, clothing and fuel--which represents about two-thirds of the average monthly income of about 115 yuan.

The increase in incomes was attributed to the adjustment of employees' wages, bonuses and the subsidies for retired people.

CSO: 4020/307

INDUSTRY

BRIEFS

LIAONING INDUSTRIAL PRODUCTION--In the first quarter of this year, industrial enterprises throughout Liaoning Province created 12.5 percent more output value than the corresponding 1984 period. But the energy consumption by these enterprises increased by only 4.8 percent, and the comprehensive energy consumption for each 10,000 yuan of output value dropped from 8.55 tons of standard coal in 1984 to 7.96 tons. [Summary] [Shenyang LIAONING RIBAO in Chinese 14 May 85 p 1 SK]

JILIN FEED INDUSTRY--Now Jilin Province has built more than 4,700 feed processing plants and centers, with a total annual processing capacity of 1 million tons. The number of feed supply stations in the province has reached 485. [Summary] [Changchun JILIN RIBAO in Chinese 15 May p 1 SK]

JILIN TOWNSHIP INDUSTRY--Town- and township-run industries have developed rapidly in Jilin Province. In the first quarter of this year, the output value of town- and township-run industrial enterprises reached 277 million yuan. At the same time, the output value of economic associations and individually run industrial enterprises reached 90 million yuan, accounting for one-third of the total output value of the town- and township-run industries. [Summary] [Changchun JILIN RIBAO in Chinese 20 May 85 p 2 SK]

JILIN INDUSTRIAL PRODUCTION--Jilin Province has seen steady and coordinated development in industrial production. The total industrial output value in the first half of 1985 increased 11 percent over the same period of 1984. The total output value of the heavy industry increased by 11.7 percent, and that of the light industry, by 19.1 percent, over the same period the previous year. The industrial output value of collective units increased 28.6 percent, and that of state enterprises, 14 percent, over the corresponding period of 1984. The income from the sales of products of the province's local industrial units covered by the state budget increased by 23.4 percent and their profits and taxes increased by 29.7 percent. [Summary] [Changchun Jilin Provincial Service in Mandarin 2200 GMT 5 Jul 85 SK]

GANSU INDUSTRIAL PRODUCTION--In the first half of this year, industrial enterprises in the province covered by the budget continuously increased their production and achieved marked economic results. From January to June, the output value and profits of industrial enterprises covered by the budget increased by 22.4 percent and 28.9 percent respectively compared with the same

period last year. In the first half of this year, the province's financial income increased by 22.3 percent over the same period last year; the profits retained by industrial enterprises increased by 58.3 percent compared with the same period last year. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 21 Jul 85 HK]

ANHUI SUPPLIES SHANGHAI CEMENT--Hefei, 25 July (XINHUA)--A thriving cement industry has sprung up in Anhui Province to provide the building material for the Shanghai Economic Zone. More than 30 cement factories of various sizes along the Yangtze River can now produce 3 million tons of cement a year, and new factories being designed and built will bring the production capacity to 7 million tons. This includes the Ningguo Cement Works, with a designed annual capacity of 1,500,000 tons, which went into trial operation last May, and another plant of same size that will be built in Tongling. The rise of Anhui's cement industry will ease shortages in the burgeoning Shanghai Economic Zone, which embraces Shanghai municipality and parts of Jiangsu, Zhejiang, Anhui and Jiangxi Provinces. Anhui is rich in limestone resources with verified reserves of 1.1 billion tons. A deposit of 800 million tons was recently discovered in the Tongling area. The Yangtze River and four railway lines provide excellent transport facilities for the product. [XINHUA Headline: "Anhui Cements Solid Relationship With Shanghai"] [Text] [Beijing XINHUA in English 0344 GMT 25 Jul 85 OW]

BEIJING, WUXI GARMENT CENTERS--Beijing, 26 July (XINHUA)--The Textile Industry Ministry is building two garment centers in Beijing and Wuxi, Jiangsu Province, respectively, to lead the nation in garment production. The two centers will engage in the study of garment information and design, and training of qualified personnel, as well as the production of fashionable clothes. Four major garment-making bases will be set up in Shanghai, Changzhou in Jiangsu Province, Yinxian in Zhejiang Province and Anshan in Liaoning Province in coordination with the two centers. China's garment industry has developed rapidly in recent years. The country plans to import 30 garment production lines this year and the garment output is expected to exceed 1.1 billion pieces. [Text] [Beijing XINHUA in English 0649 GMT 26 Jul 85 OW]

CSO: 4020/307

CONSTRUCTION

BRIEFS

SHANGHAI COLD STORAGE--Shanghai, 28 June (XINHUA)--A 52,000-ton cold storage, China's largest, has been completed in Shanghai, according to CHINA COMMERCE JOURNAL. The storage consists of four 13,000-ton units covering 66 hectares. Its auxiliary facilities include a deepwater wharf and a special railway line. [Text] [Beijing XINHUA in English 1833 GMT 28 Jun 85 OW]

CSO: 4020/308

FOREIGN TRADE AND INVESTMENT

JAKARTA REPORTS SIGNING OF MEMORANDUM WITH PRC

Wang Yaoting Interviewed on Trade Prospects

BK211239 Jakarta TEMPO in Indonesian 13 Jul 85 pp 16, 17

[*"Excerpt" of 7 July interview given by Wang Yaoting, chairman of China Council for the Promotion of International Trade to Susanto Pujomartono, TEMPO correspondent, in Singapore*]

[Text] [Susanto] Do you think that the signing of this memorandum of understanding signifies the beginning of something greater, such as closer relations between the two countries?

[Wang Yaoting] The Indonesian Chamber of Commerce and Industry [KADIN] and the China Council for the Promotion of International Trade [CCPIT] have signed a memorandum of understanding, which serves as a new bridge for direct trade between Indonesia and the PRC. In the past, the two countries enjoyed excellent relations and we had direct trade links for many years. We also had good relations in other fields.

Due to certain reasons, the direct trade link was severed for some time, but I believe it will grow very fast following the signing of this memorandum of understanding, especially after the exchange of visits by KADIN and CCPIT trade delegations.

The implementation of this direct trade requires joint efforts by the two countries and I still have no idea as to what extent this direct trade link will develop. However, I believe that our bilateral cooperation has a bright future.

[Susanto] Apparently there is some concern among business circles, for example among some Japanese businessmen, that this direct trade link will affect their business. What do you think about that?

[Wang Yaoting] I think there is no need to feel concerned about this because in the past our direct trade link did not affect trade relations with them. Besides, each country has its own export-import structure.

[Susanto] Can you foresee the possibility that in the future Indonesia and the PRC will work together to cope with a problem for example protectionism in an industrialized country? In the textile trade, is it possible that we may join hands to face the United States?

[Wang Yaoting] At the moment, we have not yet thought about it and I think we can consider it later. As for the textile import quota to be imposed by the United States, we believe in the necessity of free trade and we will hold talks with the United States on this matter.

[Susanto] It has been noticed that not all quarters, including in Indonesia, have agreed to the reopening of the direct trade link. What is your opinion?

[Wang Yaoting] In my opinion, this direct trade link will be beneficial to the people, businessmen, industrialists, and entrepreneurs from the two countries. I think those who oppose the trade link have demonstrated an unfriendly attitude. As long as we all work together, we need not feel concerned over such opposition. Besides, I believe those who oppose it are in the minority.

[Susanto] If the PRC is allowed to open a trade representative office in Jakarta, do you hope that it can grow into the establishment of diplomatic ties?

[Wang Yaoting] If we can start a direct trade link, I think it will automatically be conducive to the normalization of diplomatic ties. We have no problem for this normalization of relations and if the Indonesian side has problems, we are willing to wait. I believe that the normalization of relations between our two countries is only a matter of time.

[Susanto] In Singapore, in addition to having a trade representative office, the PRC has also opened a branch office of the Bank of China and a shipping agency. Do you think that the PRC has a plan to do similar things in Jakarta?

[Wang Yaoting] It is difficult to answer this question because it depends a lot on the two governments' attitudes. In the memorandum of understanding, there is an article specifying that the two countries' central banks will appoint a certain bank to handle the trade transactions. As for shipping agencies, we have not discussed it yet. It is true that we have our bank's branch office and a shipping agency in Singapore. As for the opening of similar offices in Jakarta, it is an issue that the Indonesian Government itself must consider and decide. Now that the memorandum of understanding has already been signed, we will do our best to make the direct trade link a success.

[Susanto] What kind of commodity goods are to be traded by the two countries?

28 August 1985

[Wang Yaoting] It is difficult for me to specify the commodity goods to be traded in the future. Earlier, we had various goods for bilateral trade and I believe there will be a greater variety of goods for our trade. What we need in the initial stage, I believe, is mutual understanding. Besides doing business, we can also explore the possibility of expanding our cooperation in other fields, for example, in scientific and technological fields, capital investment, and joint ventures. As the PRC is now implementing its massive modernization program, we warmly welcome cooperation in those fields.

[Susanto] What about cooperation in cultural field?

[Wang Yaoting] As I said earlier, cooperation can be carried out in all fields, including sports and culture. At the moment, cooperation in sports activities is progressing smoothly and this reflects the friendship of our peoples. We have just made the first step, therefore, we must move forward.

PRC Pledges to Buy \$200 Million Worth of Indonesian Goods

HK311158 Hong Kong AFP in English 1046 GMT 31 Jul 85

[Text] Beijing, 31 July (AFP)--The first Indonesian trade delegation to visit here since 1967 has obtained Chinese commitments to buy more than 200 million dollars worth of Indonesian goods, delegation leader Sukamdani Gitosardjono said here today.

Chinese officials also accepted a request that Indonesia, which froze its diplomatic links with China in 1967, be accorded the same trade and customs arrangements as countries that have diplomatic ties with China, Mr Sukamdani said.

Since the group's arrival here on Saturday, China's trading firms have made commitments and signed letters of intent to purchase more than 200 million dollars worth of Indonesian goods including rubber, textile raw materials, plywood, sawn timber, aluminum ingots, sheet glass, cement, fertilizer, coffee and cacao, he said.

The chairman of the Indonesian Chamber of Commerce and Industry (KADIN), Mr Sukamdani said that Chinese Vice Premier Yao Yilin had given assurances of equal customs treatment yesterday during a meeting at which he praised KADIN'S "great pioneering work" in re-opening Sino-Indonesian trade relations.

The trade relations had been frozen along with diplomatic ties in 1967, when Jakarta accused Beijing of complicity in an abortive coup.

"It is indeed a great honour to be called a great pioneering effort by a great man of a great country," Mr Sukamdani told reporters here today.

He declined to say if the renewed trading ties between the two nations would open the way for diplomatic links, and said only that it was a matter between the two governments.

The Indonesians and their Chinese hosts have discussed only trade matters and Chinese officials have not attempted to raise political questions, he said.

Asian diplomats here said that direct trade was a first step towards restoration of diplomatic links sought by Beijing but Indonesian officials in Jakarta have said that the two issues are unrelated.

Mr Sukamdani said KADIN and the China Council for the Promotion of International Trade (CCPIT) had exchanged notes during the visit expressing their respective governments' approval of a memorandum of understanding on resumption of direct trade signed by the KADIN and CCPIT in Singapore on July 5.

The notes said that each government had issued instructions for the implementation of the memorandum, he said.

He said that Indonesian businessmen had committed themselves to buy Chinese capital goods and raw materials including cotton, asphalt and coal. The commitments would be finalized during an upcoming visit by CCPIT representatives to Jakarta.

The KADIN chairman declined to say how much Indonesia would be buying from China, but said that indirect trade was not balanced and that Indonesia hoped trade would be balanced in the future.

Chinese customs statistics put indirect trade between the two nations, mostly via Hong Kong and Singapore, at 242.9 million dollars last year, with Indonesia enjoying a 128.4 million dollar surplus.

Reports from Jakarta have shown the situation sharply reversed, with Indonesia facing a 216.8 million dollar deficit on a 1983 total of 232 million dollars.

Mr Sukamdani said that the question of trade balance had not been discussed during meetings with Chinese officials.

The 127-member trade group includes nine official KADIN representatives and more than 100 businessmen, with a small number of support staff.

KADIN spokesman Chris Walean said that the group was to leave here tomorrow for business discussions in Shanghai and would leave China for Indonesia on Sunday.

Asked if the large number of ethnic Chinese in the Indonesian group could spark fresh resentments in Indonesia, which has a history of anti-Chinese ethnic tensions, Mr Sukamdani said "there is no problem because we are all one nation speaking one language and there is no discrimination."

LABOR AND WAGES

JILIN COMMENTARY URGES RATIONAL FLOW OF PERSONNEL

SK240814 Changchun Jilin Provincial Service in Mandarin 2200 GMT 22 Jul 85

[Station Commentary: "We Stress Rational Flow of Talented Personnel and Oppose Blind Flow"]

[Text] The rational flow of talented personnel constitutes an important part in conducting reforms in personnel systems and an important policy decision in promoting the readjustment and development of the national economy, which will change the irrational situation in personnel assignment and structure and will improve the unreasonable employment of talented personnel in order to further bring into play the role of intellectuals.

The province's general trend of personnel flow is developing onto a healthy road. However, some abnormal phenomena are emerging in the flow. Some departments are seeking talented personnel everywhere by offering higher posts and pay and outstanding living conditions, thus causing a blind flow of talented personnel urgently needed to outside places. As in the case of Hunchun County, some remote areas even have suffered because the vacated posts of outgoing personnel could not be refilled with those coming in. The county is located in the border area with a backward economy. It requires a large number of talented personnel to carry out development. As a matter of fact, such personnel have flown to outside places on a large scale. Such a phenomenon in the flow of talented personnel assignment, which runs counter to the spirit of the documents issued by the central authorities.

The stress on the flow of talented personnel is aimed at a reasonable flow. The emphasis in the orientation of personnel flow, is that we encourage talented personnel to go to rural areas from urban ones, to middle- and small-sized cities from large ones, to remote border areas from inland ones, to collective-owned units from the state ones, and to the Departments that are weak in scientific and technical forces and urgently need reinforcement from those with abundant scientific and technical personnel. The stress on the flow of talented personnel is aimed at conducting personnel flow in an organized and guided manner and is not aimed at the free flow of anarchism. All the more, we never encourage the activities of extra individualism by those personnel who change their jobs by ignoring the leadership and the unit authorities and run counter to the organizational principle.

The departments concerned should grasp the situation as a whole, attach great importance to the whole interest, and should resolutely block the channels of the blind flow of talented personnel in order to unclog the channels of rational flow. Efforts should be made to encourage more intellectuals who have a will to devote to border construction to go to mountainous, border, grass roots, and backward areas in order to make contributions to improving the poor and backward situation in these areas.

CSO: 4006/818

TRANSPORTATION

COMMUNICATIONS MINISTER ADDRESSES NATIONAL CONFERENCE

Beijing GONGLU [HIGHWAYS] in Chinese No 5, 25 May 85 pp 1-3

[Excerpts of a speech delivered by Minister Qian Yongchang at the National Communications Work Conference on 25 March 1985: "Do a Good Job in the Reform of Communications and Develop an Excellent Situation"]

[Text] It has been 2 years since the convocation of the national communications work conference of March 1983. In this time, in accordance with the guiding principle of the 12th CPC Congress and the decisions of the 2d and 3d plenary sessions of the 12th CPC Central Committee, the broad masses of staff members and workers of communications departments throughout China have conscientiously consolidated party organizations, vigorously explored reforms, strived to open up a new prospect and brought about an excellent situation of flourishing communications and transportation undertakings. This conference is to conduct conscientious analysis of the new situation of national communications and transportation, sum up new experiences gained by communications departments in the past 2 years in conducting reforms, study and solve new problems arising in the development of communications and transportation and discuss measures for further reforming the communications and transportation system and accelerating the development of communications undertakings. Now, on behalf of the leading party group of the ministry, I will put forward some opinions to be discussed at the conference.

I. Excellent Situation and Our Responsibility

Like the national situation, communications and transportation undertakings are overflowing with vigor. Transportation production is increasing steadily year after year by a relatively large margin. The reform of the communications and transportation system is being continuously explored and developed in a vigorous and stable manner. Profound and unprecedented changes are taking place in the system, production, construction and management of China's communications and transportation:

1. Communications departments of governments at all levels have switched their attention from enterprises directly under their control to the management of the whole industry (abridged).

2. Transportation production has been switched from an excessively strict control to a more relaxed and flexible one to encourage competition among different managing units (abridged).

3. The construction of the infrastructure of communications and transportation has been switched from relying mainly on communications departments alone to relying on the enthusiasm and concerted efforts of all fields.

In the past 2 years, guided by party and government organs at all levels, communications departments of all provinces, municipalities and autonomous regions have opened up channels of funds, vigorously utilized the abundant manpower resources of rural areas and brought about an unusually good situation in highway construction and reconstruction. In 1984, over 14,000 km of new highways were constructed and 29,000 km of highways were reconstructed and widened, of which about 1,300 km were upgraded to first- and second-grade highways. The total mileage of county and township highways has reached 620,000 km. The percentage of townships and villages accessible by highways has risen to 93 and 64 respectively. In the past 2 years, "to be rich, build roads first" has become the unanimous voice of the broad masses of people. The scale and results of the upsurge of highway construction carried out by the masses in all localities have been rarely seen since the founding of the PRC.

4. Transportation enterprises are gradually changing from the pure production type to the production-management type (abridged).

The main reasons for the occurrence of these drastic changes in communications and transportation in the past few years are as follows:

The CPC Central Committee and the State Council have set forth clear guiding principles for the development of communications and transportation. The 12th CPC Congress considered communications and transportation as a key point of the development strategy for the national economy. In the past 2 years, leading comrades of the central government have issued a series of important directives on the position and role of highways and water transportation and the principles and tasks of strengthening communications and transportation construction. They have also made many important decisions on a number of actual problems. In accordance with the directives of the CPC Central Committee and the State Council, party and government leaders in all localities have included the development of communications and transportation in important agenda and have strengthened leadership organizationally in this regard.

The hard work and efforts of the leaders at all levels and the broad masses of staff members and workers of communications departments are an important guarantee for bringing about the excellent situation of communications and transportation.

At present, there are two main tasks before us. One is to do a good job in the reform of communications and transportation system. The other is to quicken the tempo of the construction of communications infrastructure.

II. Questions Concerning the Reform of Communications and Transportation

Main tasks at present are:

1. Exercise overall management of the industry and strengthen the administrative functions of the communications departments of governments at all levels (abridged).
2. Adhere to relaxed and flexible policies and further mobilize the forces of all fields to join efforts to develop communications and transportation undertakings, ensuring that all departments, industries and regions work together and all units run by the state, collectives or individuals and all means of transportation are engaged in this cause.

The outline of our plan is: From now on, the main task for communications departments at all levels in addition to strengthening administration and management is to focus on the construction of the communications infrastructure, namely "building roads, bridges and harbors and harnessing rivers" so as to create conditions for the development of various transport forces.

Further efforts should be made to mobilize the enthusiasm of all fields for the construction of the infrastructure of communications and transportation which is a public welfare undertaking serving the entire society. Continuous efforts should be made to implement the policy of "whoever builds it will use it and benefit from it."

With regard to highway construction and maintenance, continuous efforts should be made to implement the principle of "run by the people, subsidized by the state and constructed by civilian workers." It is necessary to support all departments and major enterprises in building and maintaining special roads by themselves. Those vehicles of these departments and enterprises which run only on special roads should be exempted from road maintenance fees by communications departments. The masses should be encouraged to pool funds and buy shares for the construction of some roads and bridges. For all major roads and ferry-turned bridges built with pooled-funds, a fee may be collected to return the investment and interest of investing units and individuals within a given period. Where conditions permit, extra dividends may be distributed for a certain time period. In order to guarantee excellent road conditions, a good job must be done in collecting and using road maintenance fees. It is necessary to insist that road maintenance fees be earmarked for one purpose only and that they be collected and used in a unified manner by communications departments at the level of provinces, municipalities and autonomous regions. Considering the scarcity of road construction funds in townships and towns, road maintenance fees on tractors may be collected by communications departments at the level of counties and used specifically for the construction, maintenance, repair and transformation of county and township roads.

For the construction of harbors, highways and inland navigation channels, investment contract and public bidding contract systems should be implemented

extensively in an effort to reduce costs, save construction materials and shorten construction periods.

3. Give full play to the backbone role of state-run transportation enterprises and the supplementary role of collective transportation enterprises, invigorate enterprises and expand their power (abridged).

4. Strengthen administration and management which should be centralized and unified (abridged).

III. Planning and Construction of Communications and Transportation

This is the last year for implementing the Sixth 5-Year Plan. Judged by the current situation, all targets will be fulfilled or overfulfilled. It is estimated that 62,000 km of new highways will be constructed in the next 5 years and the total mileage of highways open to traffic will reach 940,000 km by the end of this year.

Calculated on the basis of China's total social transport volume, the general struggle goal for the year 2000 is "to achieve double 10 billions [shuang baiyi 7175 4102 0310] in growth in conformity with quadrupling." The annual freight volume of highways and water transportation should reach 14.3 billion tons. The scale of highway development is to double the length of graded highways and increase the total mileage of highways to 1.2 million km.

In the highway construction of the Seventh 5-Year Plan period, great efforts should be made to increase the traffic capacity of existing highways, upgrade highways and connect 1,500 km of main highways of dead ends. Step-by-step plans should be worked out to upgrade roads with a daily traffic volume of over 5,000 vehicles to first-grade highways and roads with a daily traffic volume of over 2,000 vehicles to second-grade highways. Efforts should be made to construct the Jingjintang and Guangshen expressways and over 60,000 km of county and to highways. By the year 1990, the total mileage of highways should exceed 1 million km, including 2,000 km of expressways and first-grade highways and 30,000 km of second-grade highways.

In 1985, 20,000 km of new highways will be constructed; 30,000 km of highways will be transformed and widened; the 1,900-km long Qingzang Road will be paved with asphalt and residual oil; 72 highway bridges will be built on such rivers as the Han Jiang, Wei He, Yongding He, Hongshui He and Xiaoqing He; and 11,000 new long-distance buses will be added.

Now, I will express some opinions on the principles and policies for accelerating the construction of communications infrastructure:

1. Gradually change the structure of transportation and increase the capacity of comprehensive transportation.

Since the 3d Plenum of the 11th CPC Central Committee, the leading comrades of the Central Committee and the State Council have issued many directives calling for efforts to readjust the transportation structure and vigorously develop highways and water transportation. Recently, Premier Zhao suggested

that "changing transportation structure" be considered a guiding principle for the state construction of the Seventh 5-Year Plan. This is an extremely important policy decision.

With regard to the transportation structure, it is necessary to proceed from the viewpoint of a comprehensive transportation network, give play to the capacity of comprehensive transportation and never stress the formation of individual networks. In highway transportation, great efforts should be made to upgrade road surfaces, provide large trucks and comfortable passenger vehicles and develop container transportation. Automobiles should gradually replace trains in transporting passengers within 200 to 300 km, general merchandise, groceries and expensive goods within 100 to 200 km and live and fresh products within 1,000 km to give full play to the advantages of intermediate- and short-distance highway transportation.

2. Highway construction should implement the principle of integrating popularization and improvement, with emphasis on the latter.

At present, we have over 920,000 km of highways, but their quality is too low. First-grade highways account for only 0.03 percent of national highways whereas fourth-grade and ungraded highways account for more than 85 percent. Over 4,000 km of state and provincial highways of dead ends have not been connected yet. The traffic volume of about 40 percent of highways has exceeded designed capacity. There are many hazardous bridges and bridges with a small carrying capacity. Due to poor road conditions and mixed traffic, the average speed of vehicles is only about 30 km per hour. It is almost like using two vehicles to do the job of one. The "inaccessibility of existing roads" has become a prominent contradiction. It has to a certain extent restrained the development of the national economy and the improvement of the people's living standards. This situation demands that we change our long-term practice of stressing the increase of highway mileage but ignoring the improvement of highway quality in highway construction. At present and for some time to come, we must implement the principle of integrating popularization and improvement with the emphasis on the latter in highway construction.

Highway improvement should be concentrated in economically developed areas. According to the characteristic that China's economic distribution focuses on the east and extends toward the west, highways should lead toward the outside from economic centers and toward the inland from the coast. In accordance with the development of traffic volume, we should construct and transform in a planned manner transit lines for energy bases, harbors and special economic zones, routes to divert traffic from the "jammed" sections of railways, routes to enter and exit from large and medium-sized cities and main highways in the major cities and towns of various economic zones. We should also construct some expressways according to demand and possibility. In the upsurge of highway transformation and construction which has already taken place, we must strengthen planning and technical guidance and ensure that every road under construction will be completed according to grade standards. Substandard roads should never be open to traffic.

At the same time, we should do a good job in popularizing highways, vigorously support road construction in townships and towns and strive to improve as

quickly as possible the situation of old revolutionary bases, minority communities and remote and poor areas where there are few or no roads.

3. and 4. deleted.

5. Resolutely implement the principle of focusing on the technological transformation, reconstruction and expansion of existing enterprises and fully tap potential.

The key points of the technological transformation of highway transportation are: 1) Upgrade highways and transform 100,000 km of road surface; 2) update and replace automobiles, increase the proportion of large-capacity diesel trucks and gradually replace all buses and trucks which have run over 500,000 km; 3) improve bus service; and 4) develop container transportation. In addition, we should raise the modernization level of management methods and gradually popularize computer technology.

6. Adhere to the policy of opening to the outside world, vigorously absorb and utilize foreign capital and advanced technology, and quicken the tempo of the technological progress of communications and transportation.

In highway and inland river construction, we should strive to absorb foreign capital as soon as possible. In order to better utilize foreign capital, import advanced technology and study advanced management methods, we plan to adopt special policies and provide more preferential conditions to attract foreign and overseas Chinese businessmen to invest in the construction of the communications infrastructure in China.

IV. Strengthen Ideological and Political Work and Guarantee the Smooth Progress of Reform and Other Work

This year, the reform of the national economic system will be carried out step by step in an all-round way, major reforms will be carried out in the wage and price systems, and reform of communications and transportation will also be carried out in depth in a step-by-step manner. Therefore, we must seek truth from facts in accordance with the unified plan of the central government, give careful guidance and "be cautious in the initial battle to ensure victory."

We should continue to do a good job in party consolidation. We should link all our work and tasks closely to party consolidation, use party consolidation to promote reforms and promote the economy and judge the work of party consolidation by the results of the economy and reforms.

12302
CSO: 4006/800

TRANSPORTATION

SHANGHAI ANNOUNCES MEASURES TO CLEAR HARBOR

HK200504 Beijing CHINA DAILY in English 20 Jul 85 p 3

[Text] Specific measures to ease the serious back-up of unloaded cargo ships in Shanghai Harbour have been announced, and they include confiscation of goods if the deadlines are not met.

The backup of overseas ships is reaching drastic proportions. By last week, the number had climbed to 164, the highest in the harbour's history.

To combat this problem, a meeting was held by Shanghai Public Traffic Office last week. The first measures to clear up the harbour will be implemented on 20 July and be effective until 20 August.

According to the Public Traffic Office, two reasons brought about this stagnation at the port; berth shortages and narrow storage areas, and illegal use of the harbour as a warehouse.

Regulations set up at the meeting include the following: A maximum of 3 months for storage of goods at the harbour.

Those passing the deadline will have their goods confiscated.

A special group has been formed to supervise the campaign. It was reported that army units stationed in Shanghai sent 300 soldiers and 100 trucks to help the clear-up drive.

To ensure a quick end to the problem, the meeting called for closer cooperation among departments and administrative offices, concerning harbour administration, railway, transportation, oversea cargo ships and foreign ships agencies.

CSO: 4020/308

TRANSPORTATION

HEBEI PORT HANDLES MORE CARGO IN FIRST 6 MONTHS

OW271228 Beijing XINHUA in English 1219 GMT 27 Jul 85

[Text] Qinghuangdao, 27 July (XINHUA)--Qinhuangdao Port in Hebei Province handled 21 million tons of goods in the first 6 months this year--an increase of 26 percent over the same period last year.

Port officials told XINHUA today that Qinhuangdao won more than 3 million yuan in bonuses for fast-loading and unloading ships in the first half of this year--300,000 yuan more than in the same period last year.

The port exports mainly coal and oil, and has trade contacts with 109 countries and regions.

About 2,360 ships, including 580 foreign vessels, called at the port last year, which handled more than 35 million tons of goods, 22 million tons of which was coal.

To ensure the smooth passage of cargo through the port, authorities have worked closely with the Railway and Foreign Trade Departments to simplify formalities and raise work efficiency.

Various contracted job responsibility systems, linking reward with effort, have been adopted to encourage dockers to work harder.

As a result, the average time ships are in port is now 2.35 days less than the set period.

CSO: 4020/308

TRANSPORTATION

CAAC TO IMPORT NEW NAVIGATION EQUIPMENT

OW221151 Beijing XINHUA in English 0649 GMT 22 Jul 85

[Text] Beijing, 22 July (XINHUA)--The Civil Aviation Administration of China [CAAC] will import a number of sets of navigation equipment in the next 5 years, the overseas edition of the PEOPLE'S DAILY reports today.

Airline officials were quoted as saying that the present ground navigation equipment is not adequate for the large passenger planes China has imported in recent years.

Four sets of blind-landing equipment have already been imported from Japan and the United States. Together with another two produced in China, they will be installed at airports in Dalian, Wuhan, Haikou, Zhanjiang and Beihai. Plans have been made to equip 10 more airports with such equipment.

Blind-landing equipment is available in 11 of China's more than 70 airports.

At present only a dozen navigation stations have omnidirectional lights and distance gauges. Three more navigation stations will be equipped with such lights this year and all major air routes and airports will be covered by these lights and gauges in the next 5 years.

China has placed orders with Japan and Britain for six sets of secondary radars for Xian, Wuhan, Chengdu, Kunming, Xiamen and Dalian airports.

Ten more sets of such equipment will be imported to equip all major air routes and coastal areas.

At present, only Beijing, Guangzhou and Shanghai have secondary radar.

CSO: 4020/308

TRANSPORTATION

BRIEFS

SHANGHAI MINING TRUCKS--Shanghai, 25 June (XINHUA)--The first batch of 32-ton heavy-duty mining trucks left the Shanghai heavy-duty truck plant last weekend. The five trucks, each costing 600,000 yuan, have been bought by the Jishan Iron Ore Plant in Nanjing, Jiangsu Province. They were made with technology from the Wabco Construction and Mining Equipment Corporation in the United States. Between 20 and 100 will be produced this year for domestic use.
[Text] [Beijing XINHUA in English 0645 GMT 25 Jun 85 OW]

CSO: 4020/308

HONG KONG ECONOMIC TRENDS

HONG KONG FINANCIAL SYSTEM REORGANIZATION DISCUSSED

Hong Kong JINGJI DAOBAO ECONOMIC REPORTER in Chinese No 27, 8 Jul 85 p 1

/Article: "A Step Forward in Reorganizing the Financial System" /

/Text/ The whittling down of more than 10 financial institutions overnight looked like a rather shocking event. However, the revocation of registration of 15 deposit-taking companies on 4 July by the Hong Kong Government's supervisory commission over deposit-taking companies did not cause any market fluctuations, instead, it was welcomed by financial circles.

Of those deposit-taking companies whose registration was to be revoked, only one had voluntarily asked for revocation while the registration of all others was revoked by the supervisory commission which cited Clause 1 of Art 14 of regulations governing the deposit-taking companies for the reason that these deposit-taking companies had already ceased taking in deposits. Since these companies had actually ceased operations and the approximately HK\$6 million in deposits have to be paid out to depositors upon maturity, the revocation of registration of these companies does not undermine the interests of the depositors. This obviously explains why the market reacted so calmly.

To begin with, the regulations governing the deposit-taking companies conferred the power to the supervisory commission over the deposit-taking companies to revoke the registration of those deposit-taking companies violating the regulations or failing to meet the requirements of these regulations. As a matter of fact, the supervisory commission has exercised this power on several occasions in recent years. However, the reocation of registration involved mostly those deposit-taking companies operating unsoundly or without sufficient circulating funds. It was the first time that registration was revoked as it was in the absence of official business operations. Thefore, it can be looked upon as an action taken by the supervisory authorities in the wake of the Overseas Trust Bank incident to mend the fold after a sheep is lost. In fact, the Hong Kong Government has taken successive actions in the wake of the Overseas Trust Bank incident to examine and verify the accounts and management quality of the 35 locally registered banks, accelerate the reform of the banking supervisory system, change the attitude toward the proposal for setting up a deposit insurance system (from the lack of interest in urgently establishing this system in the past to positively studying the possibility of setting up this system and actively soliciting the opinion of banking circles) and so forth. These measures even though taken somewhat belatedly, should be welcomed after all.

It can be said that in strengthening supervision over the financial industry, the Hong Kong Government has paid particular attention to supervising the registered deposit-taking companies since the beginning of this year. In its financial budget report submitted at the end of February, the finance department suggested that starting 1 March next year the minimum amount of deposits in the hands of each registered deposit-taking company be raised from HK\$50,000 to HK\$100,000. In its tentative plan to reclassify the financial institutions disclosed in May, the supervisory authorities had also reflected the Hong Kong Government's intention to tighten supervision and restriction over the deposit-taking companies. The strict examination of the registered deposit-taking companies by the supervisory authorities from the beginning of June has led to the revocation of registration of 18 deposit-taking companies since 21 June (two voluntarily asked for revocation of registration and the registration of one was revoked on 21 June and 3 July, respectively). According to the supervisory commission handling the deposit-taking companies, in future, the supervisory commission will continue to revoke the registration of those deposit-taking companies not running deposit operations once they are detected. All this has shown that the Hong Kong Government is unfolding its plan to remodel the financial structure by laying stress primarily on reorganizing the deposit-taking companies. As it stands now, these indeed are the necessary steps. The main reasons are:

1. Reorganizing the registered deposit-taking companies is beneficial to averting recurrence of financial unrests. As we all know, the number of registered deposit-taking companies in Hong Kong increased sharply in the 1970's. It can be said that they were the products of Hong Kong Government's suspension of issuing banking licenses at that time and also the result of careless supervision over the financial institutions by the Hong Kong Government. The law to control this type of financial institutions was not enacted until 1976 and its control was far more lenient than that over the banks. As a result, a wide gap between actual strength and management and operational qualities existed in such institutions. Although the three-level system of the financial industry was put into effect in 1981 and some unsound institutions were eliminated, this problem has not been completely resolved. In these circumstances, instead of letting weak and poor-quality institutions suffer defeats in fierce competition, it is better for them to withdraw from the arena as the former alternative is found to cause repercussions detrimental to society as a whole.
2. Reorganizing the registered deposit-taking companies is conducive to establishing a rational and balanced financial system. Registered deposit-taking companies and licensed deposit-taking companies are both auxillary financial institutions. In accordance with concept of the three-level system of the Hong Kong financial industry, the registered deposit-taking companies should handle consumption credits primarily. However, in a situation whereby the amount of consumption credit is fairly small but with the financial institutions of the two other levels getting actively involved, needless to say, it is superfluous to keep more than 300 registered deposit-taking companies.
3. Reorganizing the registered deposit-taking companies is helpful to strengthening the supervision of the financial industry. While Hong Kong has

more than 500 banking institutions (and more than 1,000 bank branches) at present, supervisory personnel number just over 100. Some people held that this was one of the reasons that supervision and control over the financial industry was so lax in Hong Kong. In other words, by adequately reducing the number of financial institutions it will help improve the quality of supervision and control.

Superficially, reducing the number of financial institutions may affect Hong Kong's position as an international financial center, but if the scale of the financial institutions is enlarged and the quality of the financial structure improved, Hong Kong's position as a financial center will become more consolidated as a result, because it would be founded on the basis of increased operations and elevated prestige.

From a long-range point of view, there are numerous advantages in reorganizing the financial system although the process of reorganization is bound to be painful. Consequently, for the sake of financial market stability, it is apparent that reorganization cannot be carried out with undue haste but must proceed with caution and in proper order.

12662
CSO: 4006/769

HONG KONG ECONOMIC TRENDS

HONG KONG BANKING UNREST DISCUSSED

Hong Kong JINGJI DAOBAO ECONOMIC REPORTER in Chinese No 27, 8 Jul 85 p 31

Article by Kang Ling 1660 5044: "Hong Kong Banking Unrest Stirs Worldwide Discussion"

Text The recent banking unrest in Hong Kong has subsided little by little with the government taking over the control of the Overseas Trust Bank and the Hongkong and Shanghai Banking Corp and the Bank of China jointly declaring support for the Jiahua Bank. Internationally, comments about the solid position of Hong Kong as a financial center are bound to come up. Although no one has serious doubts about the weakening of Hong Kong's conditions up to now, critics are concerned that the potential problems in the banking system may be looked upon by competitors as an opportunity to replace Hong Kong.

Financial Position Ensures the Future

The British newspaper, THE OBSERVER, in its analysis said that the action taken by the Bank of China in open participation and support for a counterpart is understandable. This is because the Bank of China system is sharing substantial benefits from Hong Kong banking operations and is holding 20 percent of the deposits through 13 registered banks in Hong Kong. Any unfavorable changes in the Hong Kong banking system will ultimately affect the Bank of China system itself. Therefore, by agreeing to extend urgent aid to small-scale banks under less pressure, it also means looking after its own interests.

THE OBSERVER noted in its analysis that although the Hong Kong Government stressed that internal problems such as those which cropped up in the Overseas Trust Bank were difficult to supervise and check effectively, "the actual state of affairs was that this tiny place, Hong Kong, had smelled trouble like that in the Overseas Trust Bank for several years but the big banks were always unwilling to extend loans." This incident, therefore, is directly attributed to the excessively lenient regulations. Just as THE OBSERVER noted, while the Overseas Trust's mistake was blamed on the Chinese Malaysians who owned the bank, the Malaysian side retorted that this type of laissez-faire activities tolerated in Hong Kong could never be permitted in Malaysia.

This situation, THE OBSERVER warned, not only can damage Hong Kong's image as a financial center, but may even destroy its political future in the long run.

This newspaper pointed out analytically that "the issue--which is very clear to the government--lies in the fact that the best hope for Hong Kong to exist independently after 1997 is to become an international financial center. While the mainland regime may not be too modest in dealing with the local residents, it cannot take the same attitude toward the American Express. It needs the establishment of these banks and exchangeable Hong Kong currencies."

THE OBSERVER's analysis endorsed the application of more stringent laws and regulations to control the banks' circulating funds and capital, tighten supervision and set up insurance for the depositors.

Tight Control Is Detrimental to Competition

However, another authoritative British newspaper, THE FINANCIAL TIMES, expressed somewhat different views. The Overseas Trust incident, it said, "has reminded everyone that the stationing of a Red Guard in the Central District is not the only threat to Hong Kong's free market, further tightening of banking supervision may also ruin its workstyle."

THE FINANCIAL TIMES said that the new banking law actually will soon tighten the ratio of circulating funds and capital and also the stipulations governing account reporting. What should be expected is that the more stringent regulations will play a positive role in Hong Kong's future as a financial center by primarily making the foreign-capital banks more at ease in putting their money into the local banking market. However, what equally worries the people is that restrictions have already been imposed on the circulating funds of the banks before any action is taking substantial effect in this respect.

THE FINANCIAL TIMES held that the emergence of these problems right after the uncertain atmosphere of Hong Kong's political future was cleared with the reaching of the agreement in Sino-British negotiations will impact on Hong Kong's long-term prospects, this is particularly true because Tokyo is minimizing its regulatory control and is opening up more financially, thereby putting greater pressure on Hong Kong.

THE OBSERVER nevertheless did not agree with this view. It noted that Hong Kong is not a serious opponent of Japan since Hong Kong does not have an internal economy of significant scale like Japan that is capable of supporting the market for bonds and capital, in spite of the fact that Hong Kong has qualified personnel to run the financial operations, fewer laws and regulations and fewer tax items and a sizable volume of foreign exchange and that it is a gateway to China.

Economic Climate Is Definitely Optimistic

At any rate, it is unlikely that Hong Kong's favorable position will be completely shaken as a result of the transient banking unrest, on the contrary, the predominant outlook remains optimistic. Touching on Hong Kong's economic situation for this year, THE FINANCIAL TIMES said: "Like the great majority of other economies, Hong Kong will also experience sluggish growth this year. Approximately 85 percent of its finished products will be exported; of this, 40 percent

will be shipped to the United States. Up to now, China's demands have made up for the drop of certain U.S. demands this year. Ranking 38th as Hong Kong's trade partner including entrepot trade, 5 years ago, China rose to 4th place early last year and 2d place by the end of last year. It has ranked first since 1985. Regardless of how Beijing may exercise control over foreign exchange expenditures, no one would expect control cancellations will push the figures back to the level of 5 years earlier."

The newspaper estimated that Hong Kong's economy will achieve a 7-percent growth this year "which is still higher than most places in the world. With the drop of the interest rate to about 9 percent after reaching a peak of 20 percent in July last year, demand for real estate is expected to rise. Enterprise profits are expected to rise 15 to 20 percent, which will reflect in the stock market; the profit rate from the average stock market values in 1985 is expected to rise 12 to 13 fold, which is still very attractive to foreign investors.

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